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IN THE MATTER OF "THE NATURAL
GAS UTILITIES ACT"

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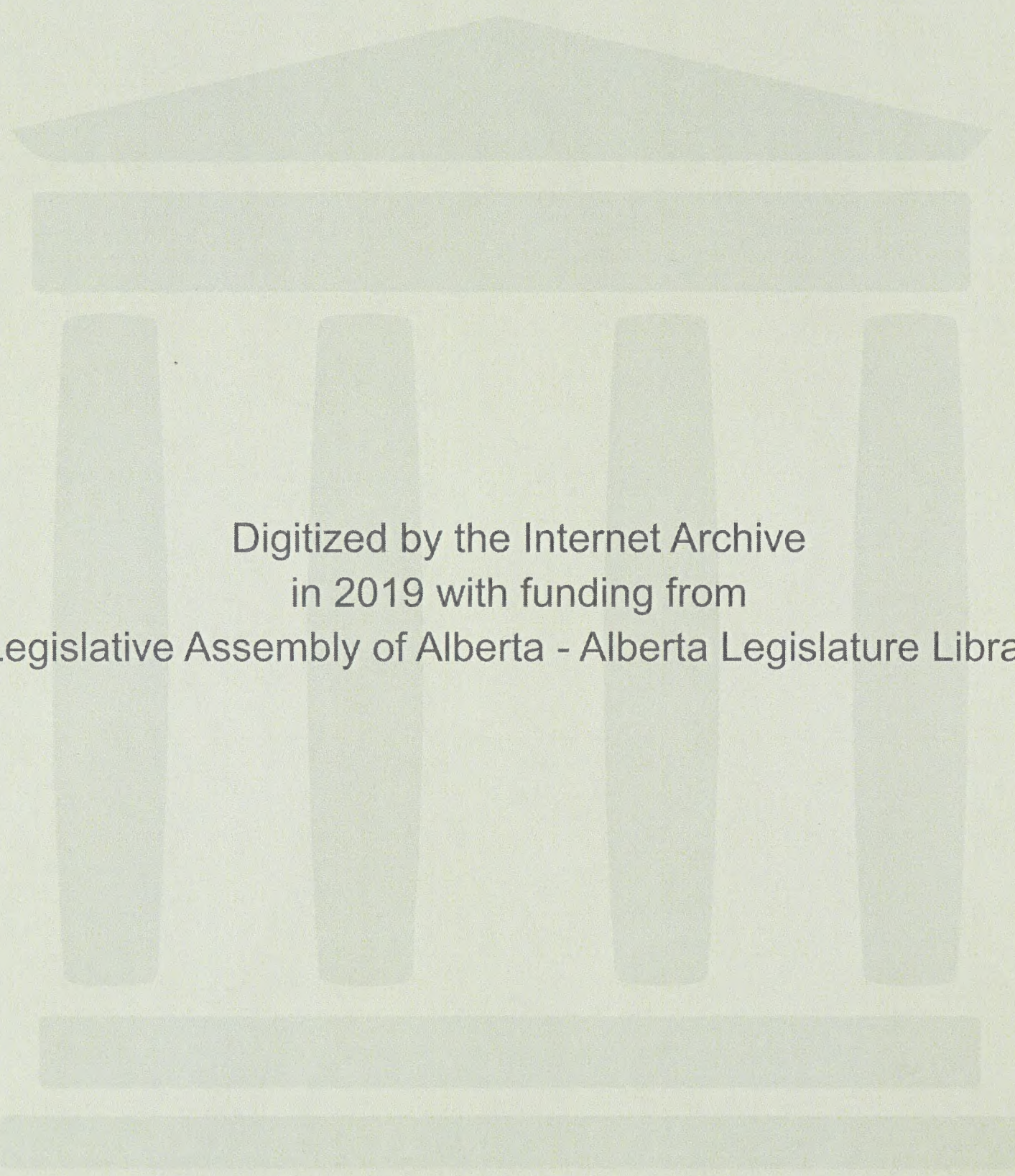
IN THE MATTER OF an Enquiry into
Scheme to be adopted for Gathering,
Processing and Transmission of
Natural Gas in Turner Valley

G. M. BLACKSTOCK, Esq., K.C., *Chairman*
Dr. E. H. BOOMER, F.C.I.C., *Commissioner*

Session:

CALGARY, Alberta February 20th, 1946

VOLUME 69



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I N D E X

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M-1-1 - 9.30 A.M.

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H. LeM. STEVENS-GUILLE, having been re-

called for direct examination by Mr. Chambers.

Q Mr. Stevens-Guille, you are still under oath in these proceedings ?

A Yes.

Q You were present some days ago when Mr. Hamilton gave his last evidence and that evidence you recall centered around certain installations that were made in Turner Valley around 1942, I believe.

A The first ones, yes sir.

Q I would like you to give us the benefit of your knowledge of those facts. Just proceed.

A I have not prepared a brief, Mr. Chairman. I anticipated going on Monday morning and I did not have time to prepare it. I have got some notes to speak from. The agreement itself I think is already an Exhibit.

Q Yes, that is Exhibit 147.

THE CHAIRMAN: On the 6th of February.

Q MR. CHAMBERS: The Board has two copies.

THE CHAIRMAN: I have two copies.

A I think, Mr. Chairman, to bring the matter into proper perspective it might be well to recapitulate very briefly the part that Turner Valley played in providing essential war material. From the very early days of the war requests were received for information on what equipment was installed; what was being made, and what could be made, and those enquiries were extended afterwards to what equipment would have to be added to make certain quantities of specified products.

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The first contribution to the war materials made by Turner Valley was through the Ammonia Plant. The contract covering this is a contract between the Canadian Western and the A.W.S.C. (Allied War Supply Corporation) and is already an Exhibit.

Q That is between the Nitrogen Plant ?

A With the Nitrogen Plant. It covers the Nitrogen Plant.

Q But the contract, Mr. Stevens-Guille, which is already an Exhibit was with the Alberta Nitrogen Plant ?

A With the Alberta Nitrogen Plant, which is operated for the A.W.S.C. by the C.M.S.

THE CHAIRMAN: That was the Exhibit which dealt with the price of gas ?

A That is right. I think it was put in by Mr. Brownie. This contract has nothing directly to do with the alkylation agreement which I am going to explain this morning.

Q MR. CHAMBERS: Which is Exhibit 143, by the way, the Nitrogen contract ?

A The Nitrogen contract, yes sir. It has nothing directly to do with the alkylation agreement, Exhibit 147, which I am going to deal with this morning, but it had certain indirect effects. The first negotiations and enquiries with regard to the gas supply for a nitrogen plant started in 1940 and in 1941 it was clear that additional scrubbing equipment would have to be provided to supply the rising load due to war circumstances. Part of this load due to the contemplated installation of the Ammonia Plant and part due to Barracks, Airports and such other things. There were two possibilities before Royalite. It could have either enlarged the Seaboard equipment or it could increase its capacity by installing

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The first contribution to the new literature
of the subject was made by the author in 1911.
The second contribution was made by the author in 1912.
The third contribution was made by the author in 1913.
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The seventeenth contribution was made by the author in 1927.
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The nineteenth contribution was made by the author in 1929.
The twentieth contribution was made by the author in 1930.

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some other process. As has already been explained in this Hearing the second alternative was chosen and the Girbotol unit was erected in 1941, and placed on the line to Calgary in December of that year.

Now the second way in which Turner Valley supplied essential war materials was through the alkylation plant which is the subject of the agreement in Exhibit 147, and the main point to be discussed.

After discussions between Imperial Oil and the Allied War Supply Corporation, Imperial agreed to erect in their Calgary Refinery an alkylation plant. The object of that plant was of course to provide a high octane blending agent for the production of fuel for aircraft for war purposes. Now the raw material to an alkylation plant is iso-butane. At that time the gasoline plant in Turner Valley did not extract the iso-butane which exists in the wet gas, so part of the arrangement that Allied had to make was to see that this iso-butane would be made available and this it did through Imperial with Royalite, and also as you will see on your agreements with the British American Oil Company and what I have got to say of course applies to Royalite only as I have no direct knowledge of the arrangements with B. A.

It was the late Dr. Boomer who came down to Turner Valley for Allied War Supply Corporation, as he was at that time western representative for them and made the preliminary arrangements for the work that would have to be done down there to put the gasoline plant in a position to extract this iso-butane.

So in 1942 in accordance with the arrangements that had been made by Imperial Oil with Allied and

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through Imperial Oil with Royalite, equipment was added to both Royalite gasoline plants Nos. 1 and 2, to bring their capacity up to that required to extract the volume of iso-butane that the alkylation plant would need for raw feed. These additions were completed towards the end of 1942 and very early in 1943, and both plants produced iso-butane from January 1943. Gasoline plant No. 1 continuously from that time to this, and gasoline plant No. 2 until it was shut down on November 1st, 1943. These two plants, together with the B. A. and the G. & O. P. absorption plant, provided in 1943 all the requirements of the alkylation plant over and above the iso-butane that was obtained from the refinery streams.

Now I would like just to emphasize why I said that the Nitrogen Plant contract had an indirect effect on the alkylation agreement. As I have already pointed out the increased amount of gas required for the fuel market on the Ammonia Plant being put into operation started with some five to six million cubic feet per day and gradually increased to ten million cubic feet per day which is the approximate amount it is taking now.

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That meant that the Royalite Gasoline Plant No. 1 was processing that additional amount of gas and hence for that reason more iso-butane was available than would otherwise have been the case. Now we have got to 1943 and the fact that gasoline plants 1 and 2 are supplying the requirements together with the amount that was delivered from the B.A. and the G.O.P.

I would like you to turn to Exhibit 147 and note at the top, "This agreement made in sextuplicate on the - " and then the date. Probably it is a blank on your form but it is the 7th day of November, 1943 to take effect as of the 7th day of November, 1941. Therefore as you will note before this agreement was actually executed iso-butane was being supplied to fill the requirements of the alkylation plant. I would like you to turn to page 3, clause 3, construction of plant. I do not think there is any particular reason for me to read the provisions of this contract into the record but I shall refer to them as we go along. The point about that clause is it mentions the two absorption plants and the arrangement to operate the two absorption plants belonging to Royalite. Now coming back to 1942, the Brown Plan was introduced in that year primarily to regulate the production of crude oil but it also had a marked effect on the volume of gas that could legally be produced from the gas cap wells. Royalite was faced with the position that the amount of gas connected to its plant at that time would in all probability be no longer sufficient to supply the war-augmented fuel market. As you all know in 1943 Royalite did in fact overproduce its Brown Allowables. It was faced with the proposition of either doing that or

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reducing or cutting off entirely the supply of gas to some of the war plants such as for example the Nitrogen Plant. That led to an Order-in-Council being passed for compensation to be paid by Royalite to all wells producing in Turner Valley and it is to be noted that that compensation was paid. In 1942, I do not remember the exact date but it was late in that Fall, Mr. Frawley who was then Chairman of the Conservation Board came out to the field with Mr. Weymouth. I was present at the meeting with Mr. Trammel. The object of course of Mr. Weymouth's visit was to study the possibility of conserving gas, in fact to provide a plan to conserve gas somewhat along the lines of the Brown Plan to conserve oil. Mr. Frawley urged the necessity of conservation with great enthusiasm that day and we spent a long time studying all the possibilities. That was just the beginning of a long and protracted set of negotiations in which some people present here today I think took part, both here and in Edmonton and down East. The Royalite knew of course at that time that it would over-produce its Allowables in that year or in the following year 1943 and so was studying itself what could be done to prevent that occurring or to prevent it occurring in subsequent years. It was late in 1942 that the proposition of consolidating absorption plants numbers 1 and 2 was decided on. That of course had the effect or would have the effect of increasing the amount of residue gas available to the market. Alternatively of course a residue gas booster could have been placed at Gasoline Plant No. 2.

Q Would you mind pausing there for a moment. I am not clear in my own mind and I suspect that some of the others might not be as to just how the consolidation of those two

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plants would increase the residue gas available to the market.
Would you just clear that up?

A Gasoline Plant No. 2 was operating at that time at 150 lbs. working pressure. Many of the wells were producing at too low a pressure to deliver their gas directly to Gasoline Plant No. 1 which was then operating at 300 lbs. working pressure. Therefore it was necessary to install compressors to boost the gas from the area at that time contributory to Gasoline Plant No. 2 to deliver the gas to Gasoline Plant No. 1 for precessing. Alternatively, as I was just going to explain, gas could still have been processed at Gasoline Plant No. 2 and the residue gas could have been picked up by compressors and boosted directly to the Scrubbing Plant and thence to the market in the same way that the installation at the B.A. and the installation at the Madison Compressor Station No. 3 boosts the G.O.P. residue gas up to the scrubbing plant at the present time. The consolidation of the alternative two was selected and arrangements were made to carry that out in the following year, 1943. But during the winter of 1942-43 these conversations were going on between Mr. Frawley and the Conservation Board and Mr. Weymouth as advisor and most of the parties represented here. There were several matters to settle before this project could be started. The Allied War Supplies Corporation were also a party to these conversations because naturally they were most interested to assure that a continuous supply of iso-butane would be available as raw feed for the alkylation plant and the amount available was never in great excess. Therefore any interruption in the production might have meant a decrease in the amount of alkylate produced which was at

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that time in very critical supply.

The Weymouth Plan, as I think everybody knows, went far further than the consolidation of the Royalite Plants would go in conservation and it was made clear at that time that Royalite did not believe that the remainder of the plan would be a self-liquidating proposition and therefore they did not feel prepared to carry it out. The Weymouth Report actually was not published by the Conservation Board until November 22nd, 1943. Now it was hoped that the work of consolidation would start full out in 1943 so that the work would be done during the summer months. This was important, not only on account of the advantage of fine weather to do it in, but also because the work would have to be done in connection with plants which would have to be kept in continuous operation and therefore the changes could far more readily be made when the loads were low in the summer. One of the necessary parts of the consolidation scheme was the trading of contracts between the South end and the North end. This map will come in again here. Royalite at that time, Gasoline Plant No. 2 was collecting from several wells as far South as Township 18, whereas on the other hand B.A. and also G. & O.P. held gas contracts up in the North end. These wells were not at that time connected to any plant. So an arrangement was made to exchange the Royalite contract in the South with the B.A. and the G.O.P. for their contracts in this area up here, about in here. It would be Township 20, Range 3 in exchange for contracts in Township 18, Range 2. These negotiations took a considerable length of time and it was not until July 1943 that the work really got under way of changing over the

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gathering lines in the South end. But the wells for which the contracts were exchanged had to be connected to the B.A. and the G. & O.P. plants respectively before the gas gathering lines from Royalite Plant No. 2 could be picked up and the pipe used in the extended system for Compressor Station No. 3.

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which was already in existence at that time as a small booster plant to No. 2 Gasoline Plant, and was enlarged under the consolidation scheme to deliver gas to Gasoline Plant No. 1 instead of Gasoline Plant No. 2.

Bear in mind that 1943 was probably the worst year - 1944 was just a little better, I think, - from the labour point of view in Alberta. Part of the understanding between Royalite and the National Selective Service was that 150 men would be available for doing that work, this project of consolidation, together with the extension of gas gathering lines Northward, and also the extension of what is known as the residue gas return fuel line, as termed by the Company "Project "A"".

Now I would like you to turn again to the allocation agreement, Page 4, Clause 4 "Estimate of Total Cost". At first sight it must be wondered why in this clause a lot of work is detailed, which is to be excluded from the terms of the agreement. When I first read the contract I wondered why myself but I think on reading the rest of the contract it becomes abundantly plain.

There is also perhaps another little difference here. The words "auxiliary plant", it is actually used to cover two different things and I think the reason is clear when you look at the date that this contract was made effective to, and also the date on which it was executed, - there are two years between the two. In Clause 3, you will remember I showed that the gasoline plants Nos. 1 and 2 were mentioned, the actual phrase being "the 2 absorption plants" owned by Royalite and the auxiliary plants in Clause 3 at the top of page 4, refers to the additional equipment that was installed in each of those plants purely to extract iso-butane.

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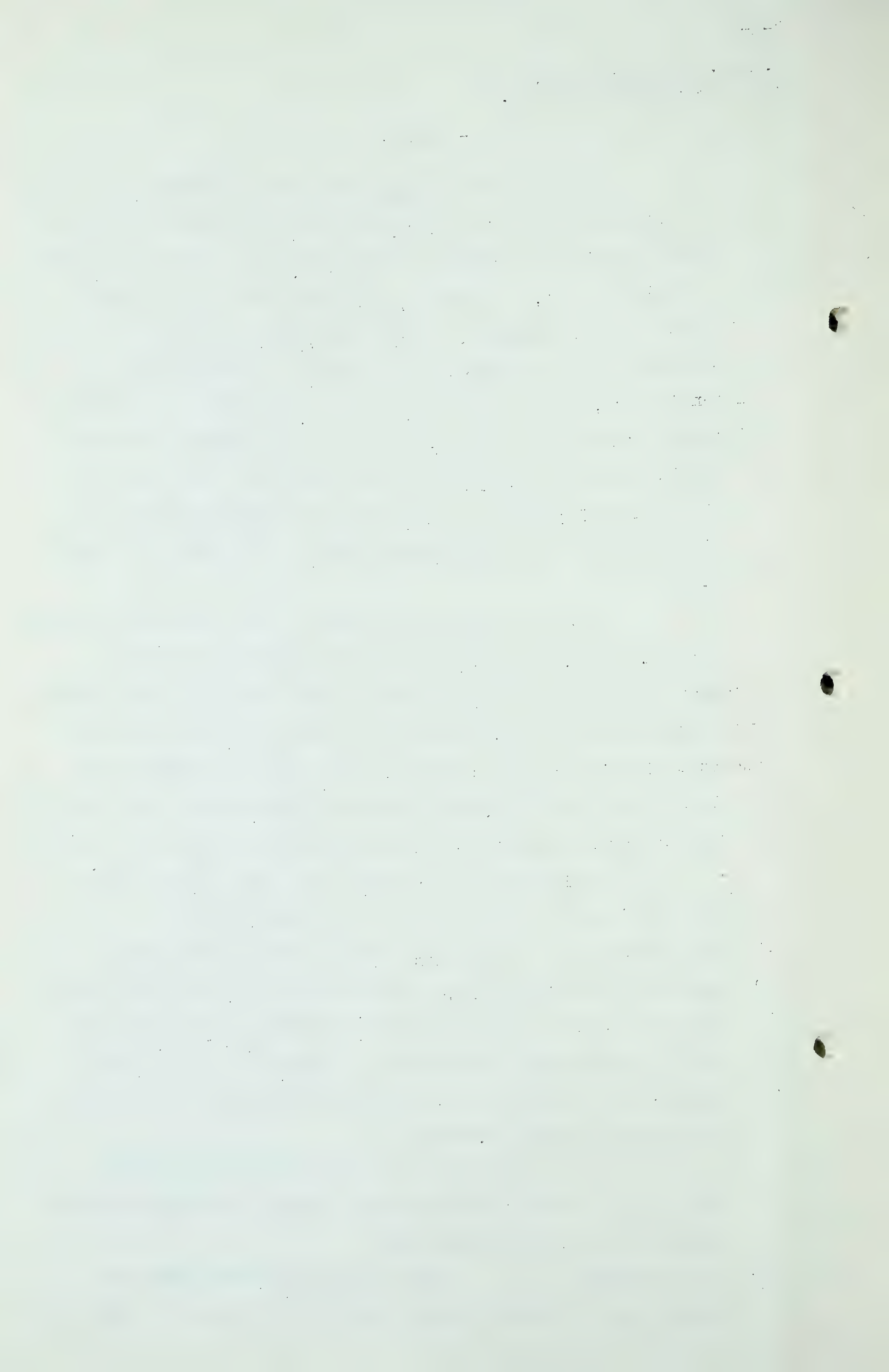
Now the whole background of this agreement is that the alkylation plant in the first place, and hence the plant enlarged purely to provide the raw feed, the alkylation plants are unlikely to be, or so it was considered at the time the contract was contemplated, profitable commercial units in this area after the war emergency had passed, therefore the intention was, and it is clearly set out, that the equipment installed solely for that purpose would be subject to review and adjustment between Allied War Corporation and Imperial so far as the alkylation plant went, and through Imperial to Royalite as far as the equipment added to the gasoline plants went.

Then came the change which I have described. Plants were consolidated, under ^{the} considerable pressure that the Conservation Board were exerting at the time, as to the Conservation measures to be taken in the field, and as outlined and as their view was outlined in the Weymouth Report as to how it could best be done, so before this contract was executed, the picture changed and it was necessary to cover that change.

Now during the two years much had been said and a lot had been done and therefore the people drawing the contract, in my view wisely, covered the ground very completely in this Clause 4, showing what parts of the consolidation project, or as we called it "Project 'A'", were, in their opinion, and in agreement with Imperial, in Imperial's opinion too, related to the iso-butane picture and what was not related to that picture.

I do not think there is any point in my reading through the details and giving the figures that are given in Clause 4, do you, Mr. Chambers?

Q MR. McDONALD: Will you just differentiate the expenditures of three hundred and eleven thousand in each way?



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A Well, if you read Clause 4 I think you will find it is so clearly set out that I would only be spending time unprofitably.

Q How much is related to iso-butane ?

A In the other way around.

Q What is the total?

A The total of what is included, it shows in about the fourth line from the bottom, "are excluded from the operation of the provisions of Paragraph (b) of Clause 11 of this agreement."

Now if you will turn to Page 9 you will see Clause 11, Paragraph (b):

" In consideration, amongst other things, of the fact that the plant and the auxiliary plants' and the "auxiliary plants" that means the auxiliary plants, the equipment put into the gasoline plant, in all the plants built under Project "A":

'are being.....'

MR. FENERTY: Now I do not want to interrupt, but perhaps the time has come that I should refer and say something as to the Rules of Evidence. I would suggest that it is competent for the witness to explain the circumstances under which the contract was made but I think the Board and Counsel can read what the contract says, that is a matter of interpretation of the contract now.

THE CHAIRMAN: Yes, that is perfectly sound but perhaps Mr. Stevens-Guille could tell us what was done because of his interpretation of the contract.

MR. FENERTY: Oh yes, but now the witness is going on to say what this means.

MR. CHAMBERS: I am not pressing that evidence.

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THE CHAIRMAN: He could achieve the same result by telling us what was done.

MR. FENERTY: I am not too serious, but I did not want him to attempt to get away in any way, shape or form from the contract which they considered for weeks and months.

WITNELS: Clause (b) reads:

" In consideration, amongst other things, of the fact that the Plant and the auxiliary plants are being constructed solely for the purpose of supplying His Majesty's needs of alkylate blending agent and of the fact that the price payable by His Majesty as set forth in paragraph (a) of this Clause 11 is at least Eight Dollars (\$8.00) per barrel less than the present price being paid for imported alkylate blending agent delivered at Calgary, and, as is represented by Imperial Oil and British American, the Plant and auxiliary plants are of a type and size which do not now appear to be required by Imperial Oil and British American, and further that, at the present time, it is not possible to determine the actual peacetime value of the plant and the auxiliary plants to Imperial and British American, the parties hereto have agreed as follows:"

My point in referring to that, - you will now go back to Clause 4, - was to show the relation of the two and why the plants that were being built, other than to produce the iso-butane, are listed and specially excluded from the provisions of the agreement.

MR. FENERTY: Well now, here again you see what we

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are getting. Now I submit that that is not correct. They are not excluded from the operation of the agreement. They are excluded from the provisions of the one clause but they are included in the agreement. Now that is where a difficulty comes with people talking about a contract and its interpretation. If you read that paragraph on page 4, there is a difference between what the contract says and what the witness says, and there is a difference in the whole proposition. Now Page 4 says it is excluded from the operation of the provisions of Paragraph (b) of Clause 11, and I say it is specifically included in every other phase in the operation. Now that is just what we are getting.

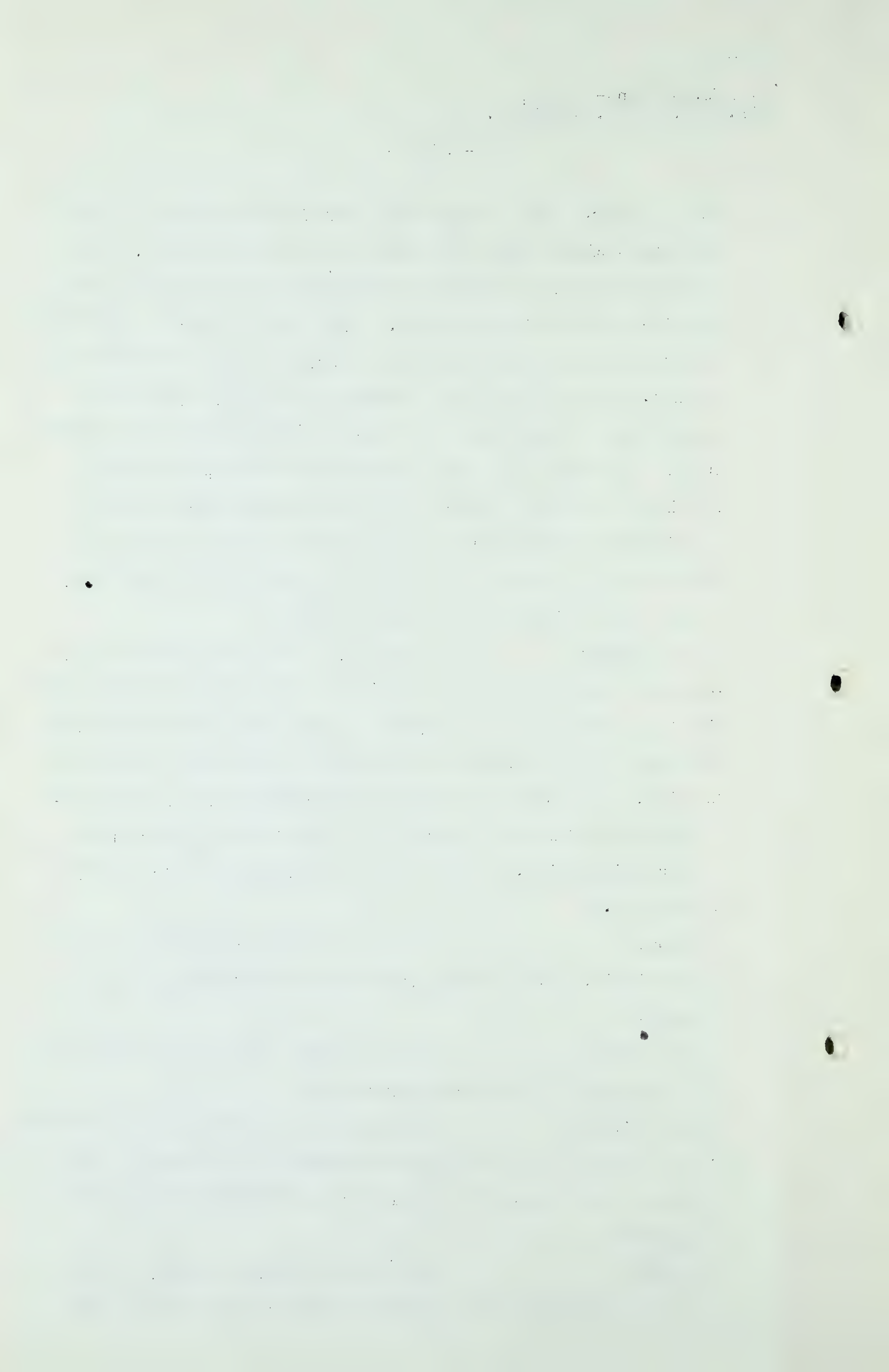
THE CHAIRMAN: I take it, I take the effect of Mr. Stevens-Guille's evidence to be that that which was constructed for the purposes of the alkylate plant only, received special treatment by the Dominion Government in the matter of amortization, whereas those things constructed or the work undertaken purely for the purposes of fuel, did not receive the same consideration. Now I may be wrong, but that is what I understood.

WITNESS: That is the way I evidently should have said it, Mr. Chairman, and that is the import of my remarks.

MR. FENERTY: Well perhaps I should not interrupt. We can cover it by cross-examination.

THE CHAIRMAN: You were quite sound in your objection but I do not think that Mr. Stevens-Guille is trying to set himself up as an amateur lawyer, even although he is a good engineer.

WITNESS: What I am trying to explain, Sir, rightly or wrongly, and whether clearly or not, is so that



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the people who had not the advantage of following, as I did at the time, the very detailed and complicated situation, can possibly follow it now.

There was work done under Project "A", then let me say that was not related at all to the production of iso-butane. That Iso-butane was already being produced. Its connection with iso-butane was that if the interruption was to be long, the supply of iso-butane would fall short of requirements. For that reason Allied War Supplies Corporation was vitally interested in what was being done in Turner Valley.

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M-2-1 - 10.15 A.M.

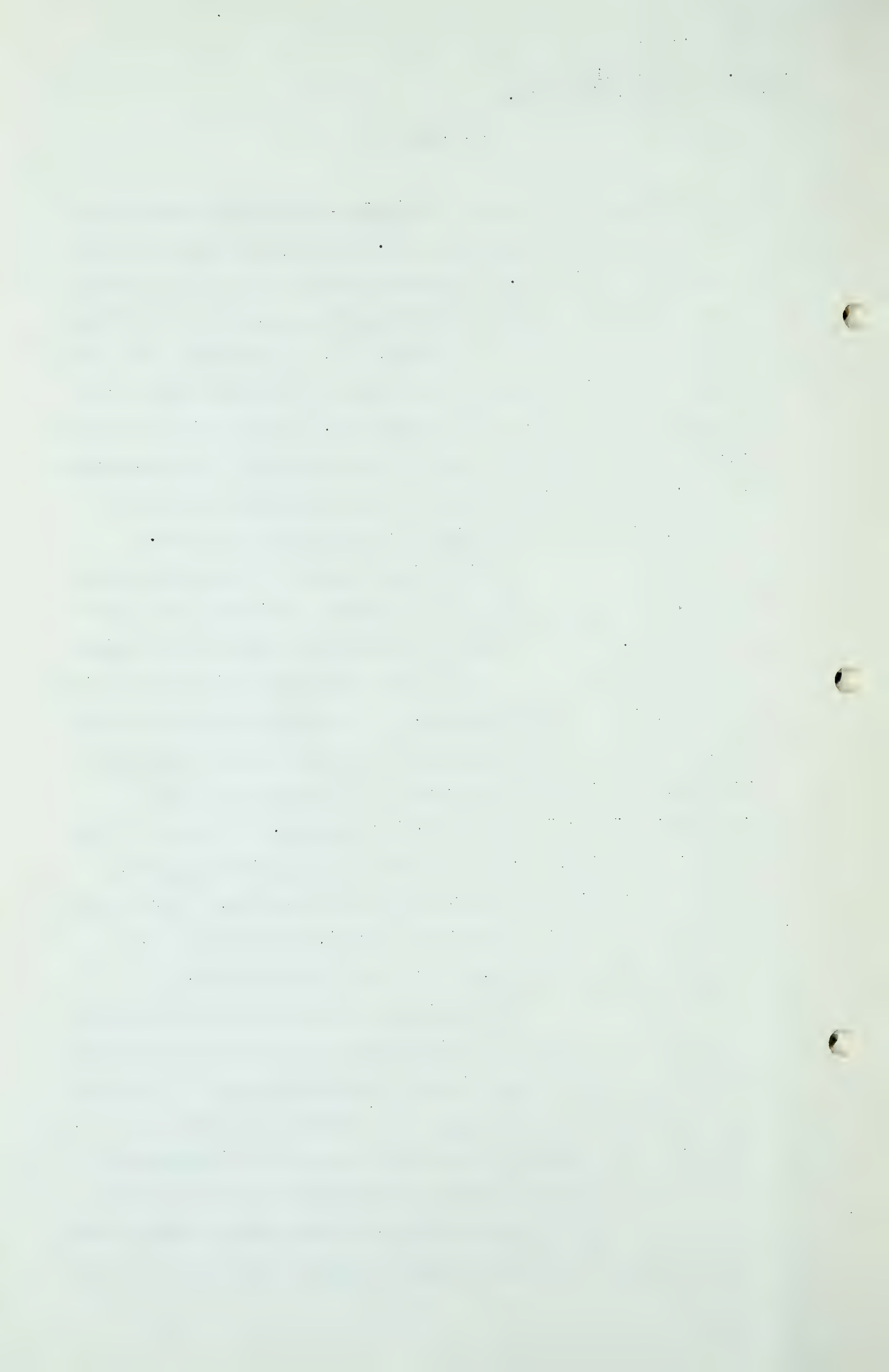
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Now I would like to turn to project "A" and give some details of the problem of carrying it out. I have already mentioned the labour difficulty. Originally the 150 men were expected to be provided by National Selective Service, but at no time were 150 men available on the job, and, furthermore, the turn-over of men was tremendous and the type of man was far from suitable for the work being undertaken. This continued right throughout the job in spite of the most urgent representations to National Selective Service right from Turner Valley to Calgary, Winnipeg, the regional centre, down to Ottawa.

Materials in 1943 were very difficult to obtain. Deliveries when dates could be obtained never made those dates. Local fabricating concerns such as for example, Dominion Bridge were at that time making high priority material for the ship building industry. It was under conditions such as these that we were instructed to proceed with the utmost diligence and in the contracts you will see the words "expeditious" and "earliest date" mentioned. Because of the delay in starting, because of the delay in obtaining men, because of the inadequate number of men obtained, and because of the difficulty in obtaining material, winter was on us before Gasoline Plant No. 2 had even been shut down.

The question of the high cost of project "A" has been raised and considering that I think the question of prudence must also be given consideration and it must not be forgotten that the supply of a critical material for Canada's war effort was at stake and under all circumstances and at whatever the cost it was essential to get the work done. As I have already indicated, doing work of this nature, not building a new plant from the grass roots where you are



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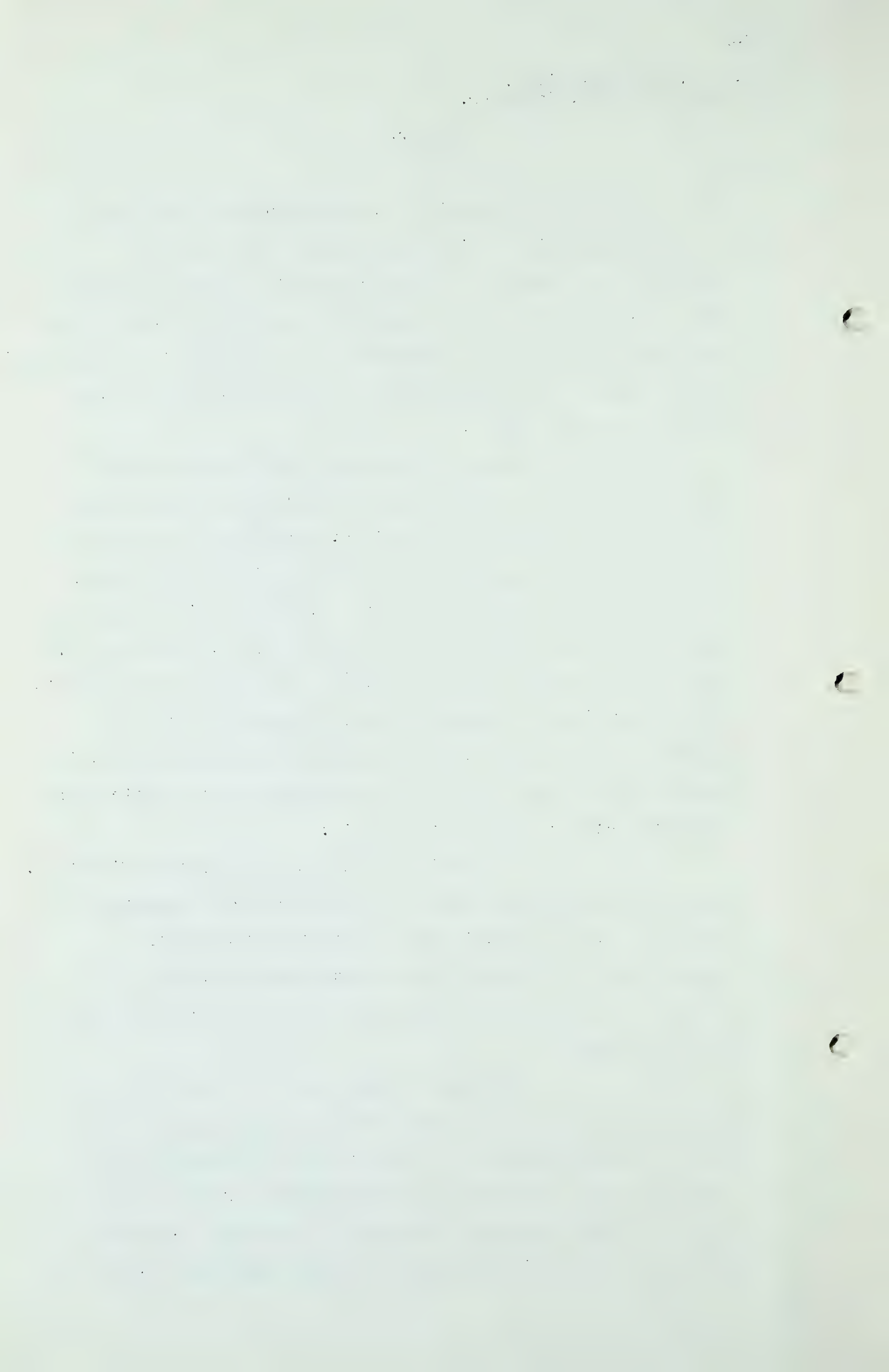
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unhampered by other equipment, but superimposing equipment on running equipment is difficult at all times and quite obviously very much more difficult when the plants are under high load and continuity of service is essential, cannot even shut down a unit for five minutes in order to make a connection. You have got to find some other way around the problem, probably an expensive one.

Another additional cost in carrying out project "A" was the fact that materials were not received in the order that they were required. Progress had to be made to a point and then stopped and then something else gone on with while material was being waited for. That in itself of course adds considerably to the cost of any project. Furthermore, as some materials could not be obtained in time we had to fabricate certain things ourselves with equipment that was not suitable for the work. The cost therefore was naturally in some cases many times the cost of purchasing the article from a manufacturer equipped to make it.

Welding was one of our major difficulties. Some of the welders that had to be used because no others were available, were certainly not up to the standard that we normally have and the cost was added to greatly in that way. In some instances due to faulty work by men such as those work had to be redone.

All these things were not in mind at the time the original estimates were made to carry out that work. The conditions gradually grew one by one as anybody who did any construction in 1943 must well remember, and no revision of the original estimates were made at any point. Therefore, the figure that is given on Page 4 of the agreement, Clause 4,



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of \$477,000.00, was very largely exceeded. The fact that the cost was going to be far higher due to the delay in starting and other factors I have mentioned was well understood, but the urgency of the work was the chief point in mind that we were told to press ahead. As you will notice in Clause 4 (c) the statement is given there that none of the foregoing estimates is a tender but may be subject to variation. Mr. McLellan will give afterwards the actual figures and distribution.

The point that I think everybody needs to get clear and keep clearly in their mind is the fact that only a small proportion of this work was for the production of iso-butane and the major portion was for the conservation which had been urged by the Conservation Board and out of the Weymouth plan. Its consolidation you will remember was part of the Weymouth plan, incorporated in it. This part was carried out voluntarily by the Royalite Oil Company.

I do not think there is anything else Mr. Chambers, I can say at the moment until I have seen the figures.

Q MR. CHAMBERS: Mr. Stevens-Guille, you have just outlined to us some of the reasons which to your knowledge and in your view affected the actual cost of the project "A". Without going into the details it is a fact though is it not that part of the installations that were made under project "A" was transferred to and is now owned by the Madison Company ?

A That is correct, sir.

Q And was valued by Mr. Hill in his appraisal, which is Exhibit 59, I think it is ?

A That is right.

Q And Mr. Hill, in his valuation as I recall it, or in his

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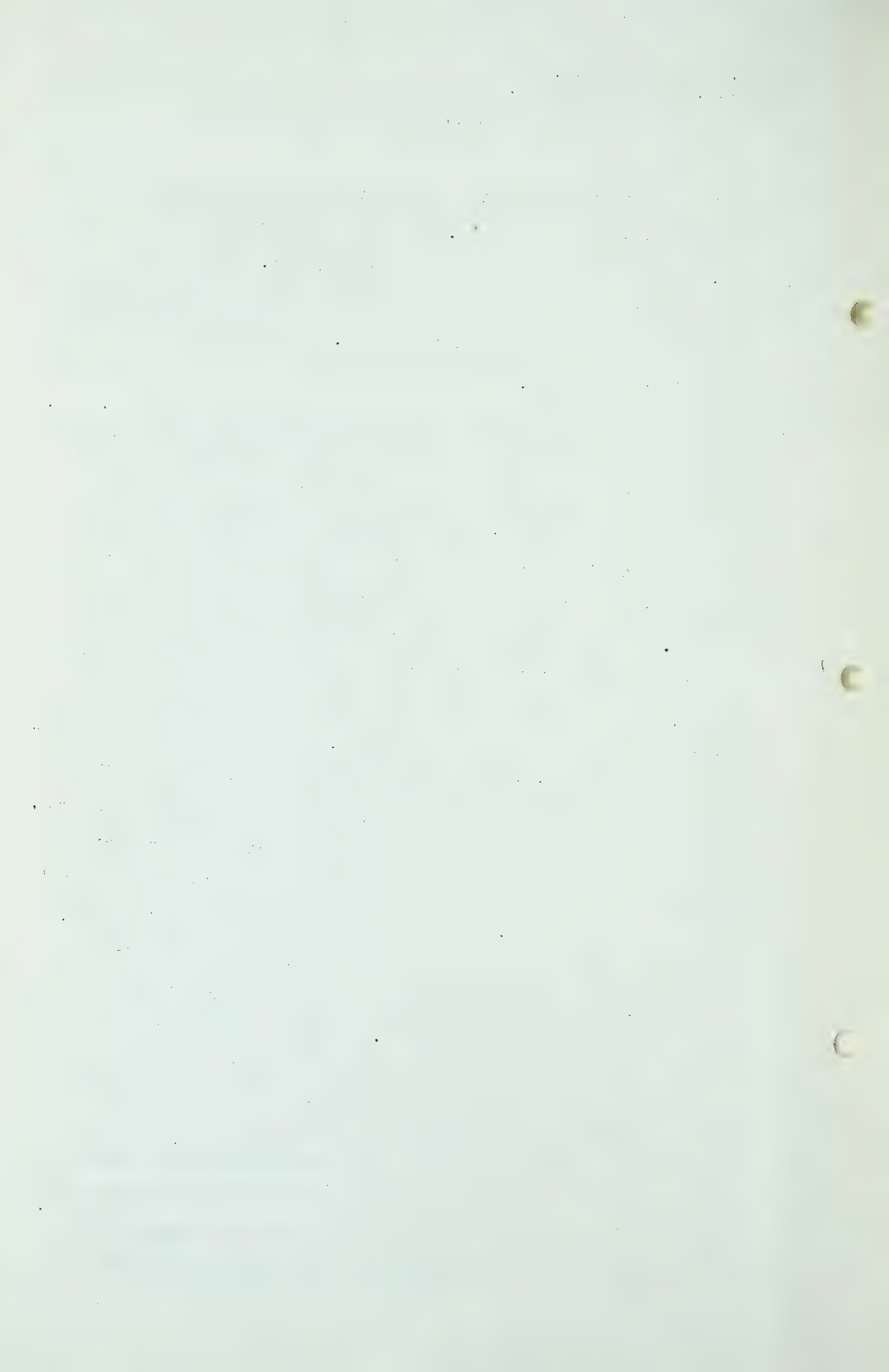
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evidence, indicated that he had made allowance for the inefficiency of war labour. Do you remember that ?

A No. He did not take that into account, sir. He did not give any additional value to the plant because of the inefficiency of war labour, the reproduction cost.

Q That is all, thanks.

A There is one point I would like to mention that I did not. Mr. Hamilton gave an example of the difference between Mr. Hill's reproduction cost and the actual cost of Royalite books for a particular building. That is perhaps the greatest example of the additional cost due to the problems we were under. Nobody normally fabricates a steel building out of pipe in the field. We could normally purchase those things from such manufacturers as Dominion Bridge, who are fully equipped to build them, and it is well known to all of us that trying to do those things yourself is more expensive, but the fact of the matter was that the Dominion Bridge were more than completely filled with orders of higher priority from this ship building program, and we had great difficulty in getting certain other parts of equipment out of them which were needed and which we could not fabricate ourselves. We had one choice and one choice only, if we wished to get the work done and that was to do it locally. Now there were very few pressure certificated welders available at that time. Therefore we had to use those welders who are always the most experienced welder on work requiring men with those qualifications and we had to use on work of this nature the least experienced, the least expert welders that were available, and as I have already said they were of a standard far below that we would normally use. Furthermore, in the construction of that building and other



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items we were up against the proposition of having to move men from one job to another and back again, instead of keeping them continuously on a job until they had finished it. All these things do build up a cost and in this case I think Mr. Hamilton's figures showed the historical figure on the books is more than twice the reproduction cost that Mr. Hill allowed. That might sound extraordinary to anybody who has not done that work, but is quite understandable to me and I am sure Mr. Hamilton has been able to find other instances of the same thing and we knew very well they were there and it was simply the necessity to get the work done that forced us to do it in that way and we have already pointed out to Mr. Chambers in reply to his question Mr. Hill in his reproduction cost of equipment transferred by Royalite to Madison Company gave no benefit of the fact that they were done under these circumstances.

CROSS-EXAMINED BY MR. FENERTY:

Q Mr. Stevens-Guille, when you said that in your interpretation of the agreement this equipment, compressors and accessory pipe lines and pipe line system north end of the Valley ?

A Where are you reading from Mr. Fenerty ?

Q I am reading on Page 4. You refer to these various things being excluded from the operation of the agreement ?

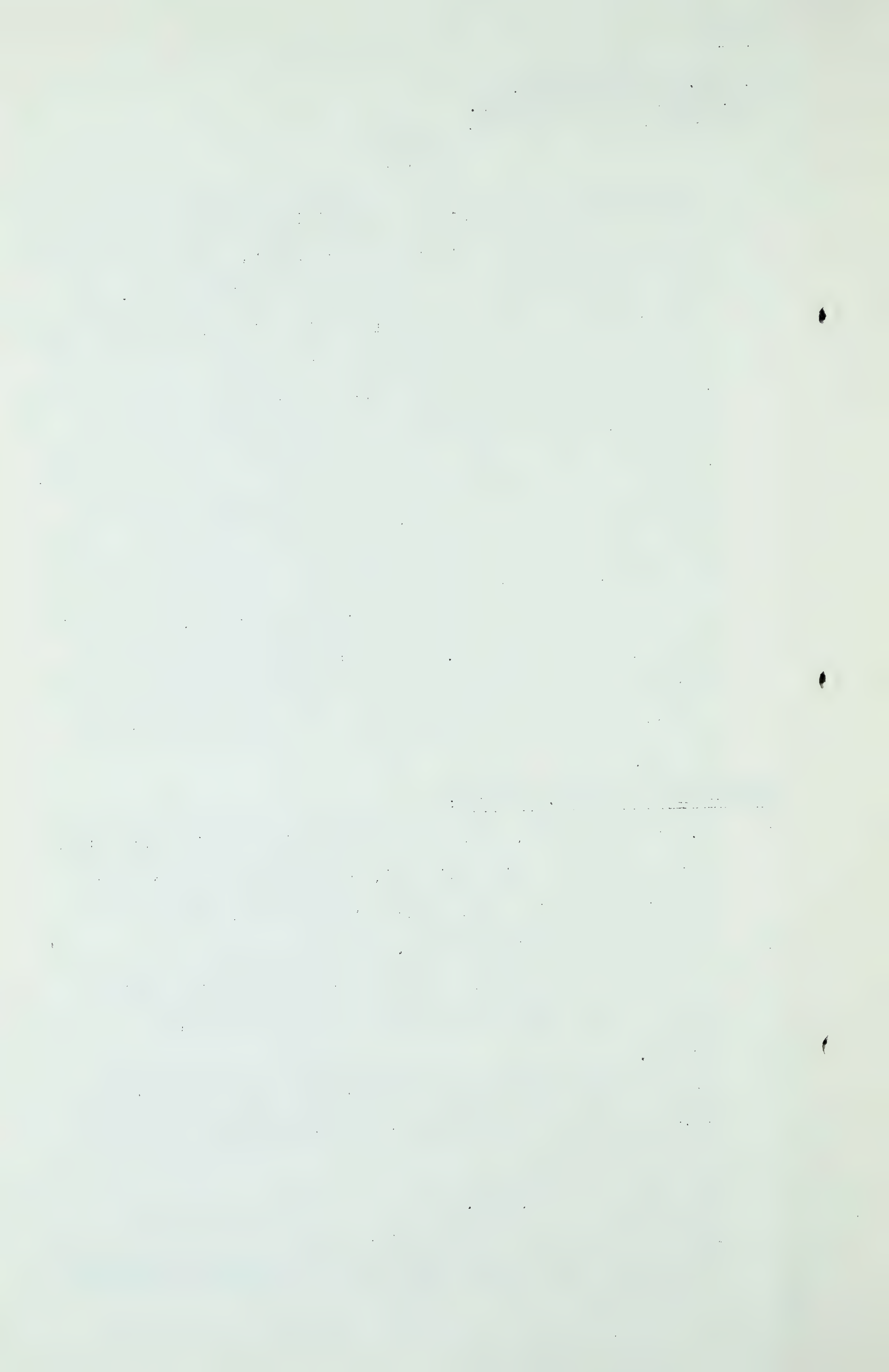
A Yes sir.

Q I take it that you were referring to the words found in the fifth line from the bottom of this large single spaced paragraph on Page 4 ?

A Yes, that is right, sir.

Q And you see that what it says is:

"Excluded from the operation of the provisions of Paragraph



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"B" of Clause 11 of this agreement".

A That is right, sir.

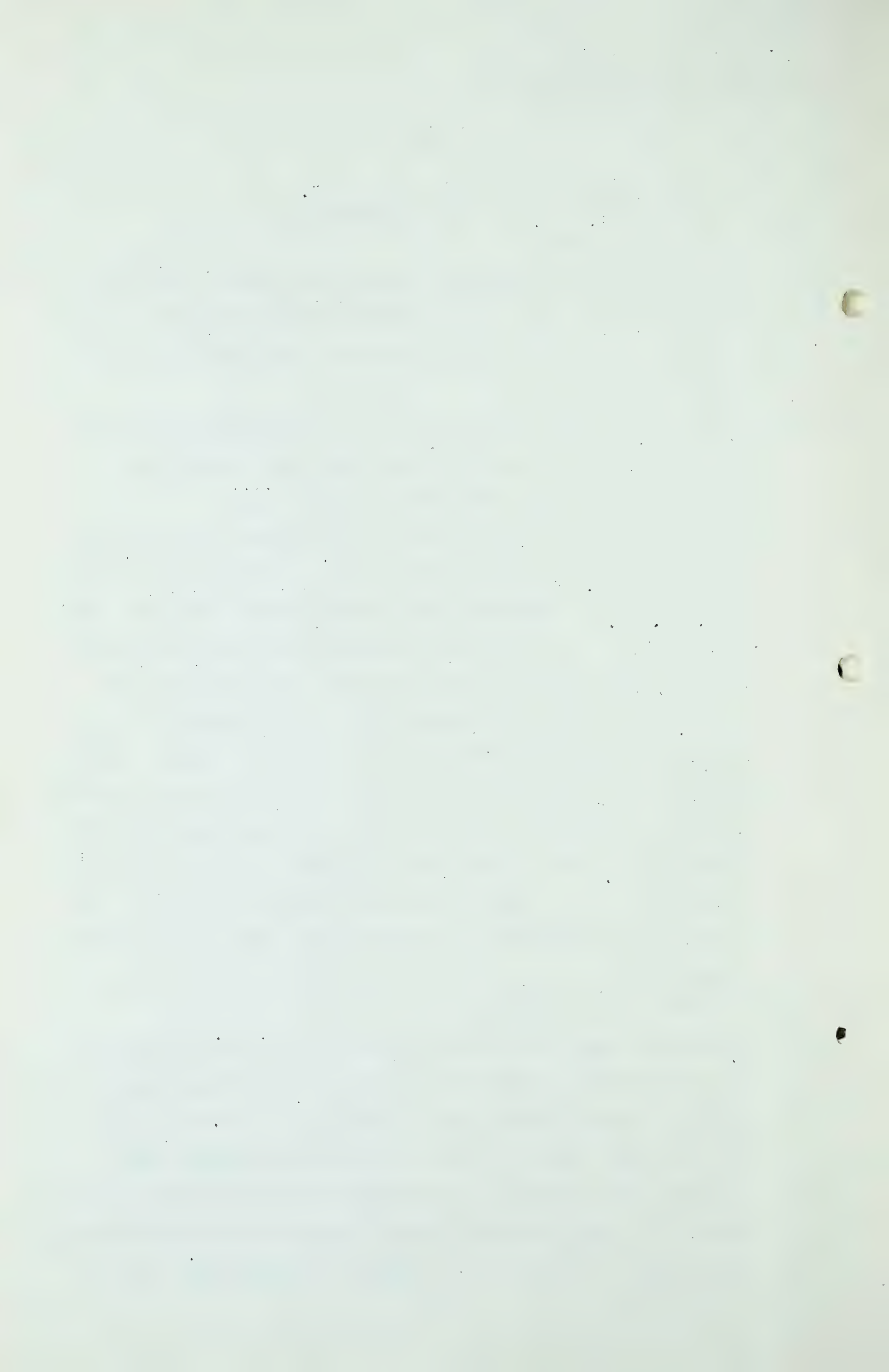
Q Now I want to discuss that with you for a minute, because I suggest it puts an entirely different complexion on the whole agreement. I take it that was more or less a slip of the tongue ?

A I probably should have said that was my understanding of the agreement, and naturally, Mr. Fenerty, I had to have an understanding of the agreement to carry out....

Q You see we have fourteen pages of the agreement and there is one paragraph where it deals with that. Will you look at that page higher up. "Royalite Oil Company Limited Auxiliary Plant, \$470,000.00". Now are we in agreement that plant necessarily auxiliary includes the compressors and accessory pipe line installed to boost gas from the south end of Turner Valley to the No. 1 absorption plant of the Royalite Oil Company gathering pipe line system in and from the north end of Turner Valley, and the return dry or processed gas pipe line from the absorption plant of the Royalite Company Limited to the north end of Turner Valley. I am not saying that is to be paid for. I am saying that definition of auxiliary plant necessarily includes those items ?

A In that clause, yes sir.

Q Because otherwise you would not have the \$470,000.00 opposite it. Now having in mind the auxiliary plant includes those items I want you now to turn to Page 9, Clause "B" near the bottom of the agreement and we see here, in consideration amongst other things of the fact that the plant and the auxiliary plant are being constructed solely for the purpose of supplying His Majesty's needs of an alkylate blending agent. Now we



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have already agreed that includes these items we have talked about being constructed solely for the purpose of supplying His Majesty's needs for an alkylate blending agent ?

A Wait a minute. That is not what I have said. We have not agreed.

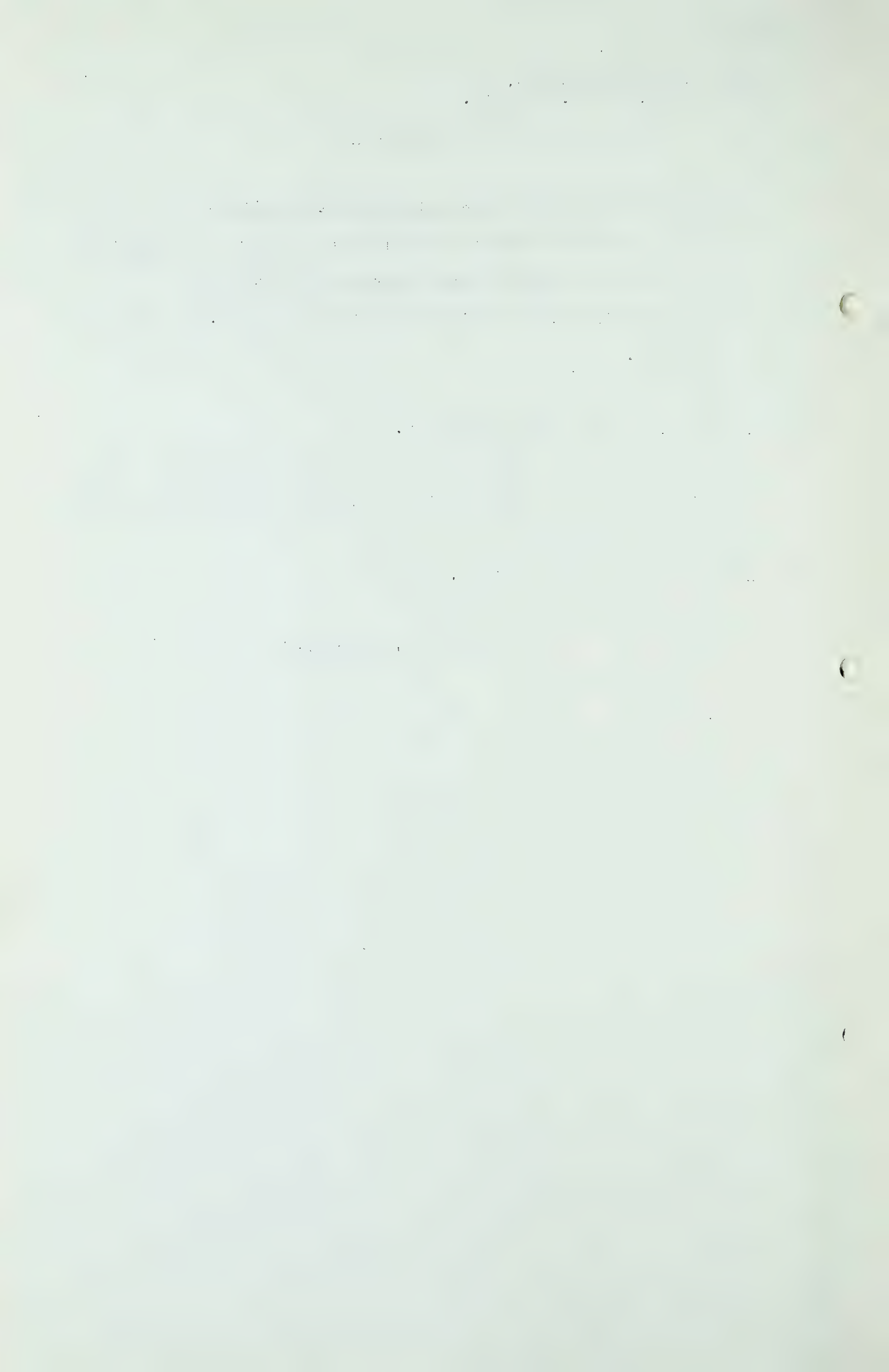
Q You see it ?

A Yes, but we have not agreed.

Q You can give your explanation after I follow my chain. That is there and if a thing is solely for one purpose it cannot be for a dual purpose ?

A No, that is quite true.

(Go to Page 5668)



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Q That is true and if it was solely for that purpose it was not for the purpose of supplying any gas to Calgary, was it?

A Going on your supposition that is quite true.

Q What explanation do you want to give us?

A You started out by saying we were agreed. If you had listened to the answer I gave just now, I said that the auxiliary plants in clause 4.

Q Yes?

A Referred to the plants enumerated in clause 4, but the auxiliary plants referred to in clause 11(b) are not the same auxiliary plants as are listed in clause 4.

Q Now why do you say that?

A Because as I gave my evidence-in-chief the fact that the words "auxiliary plants" were used in different clauses here to cover different items.

Q I am interested to know where you find that in the agreement. I am not the slightest bit interested in what you think now in the light of what has happened, but I am talking about the agreement. Find it in the agreement for me.

A Well you would have to read the whole agreement, Mr. Fenerty, to follow that through.

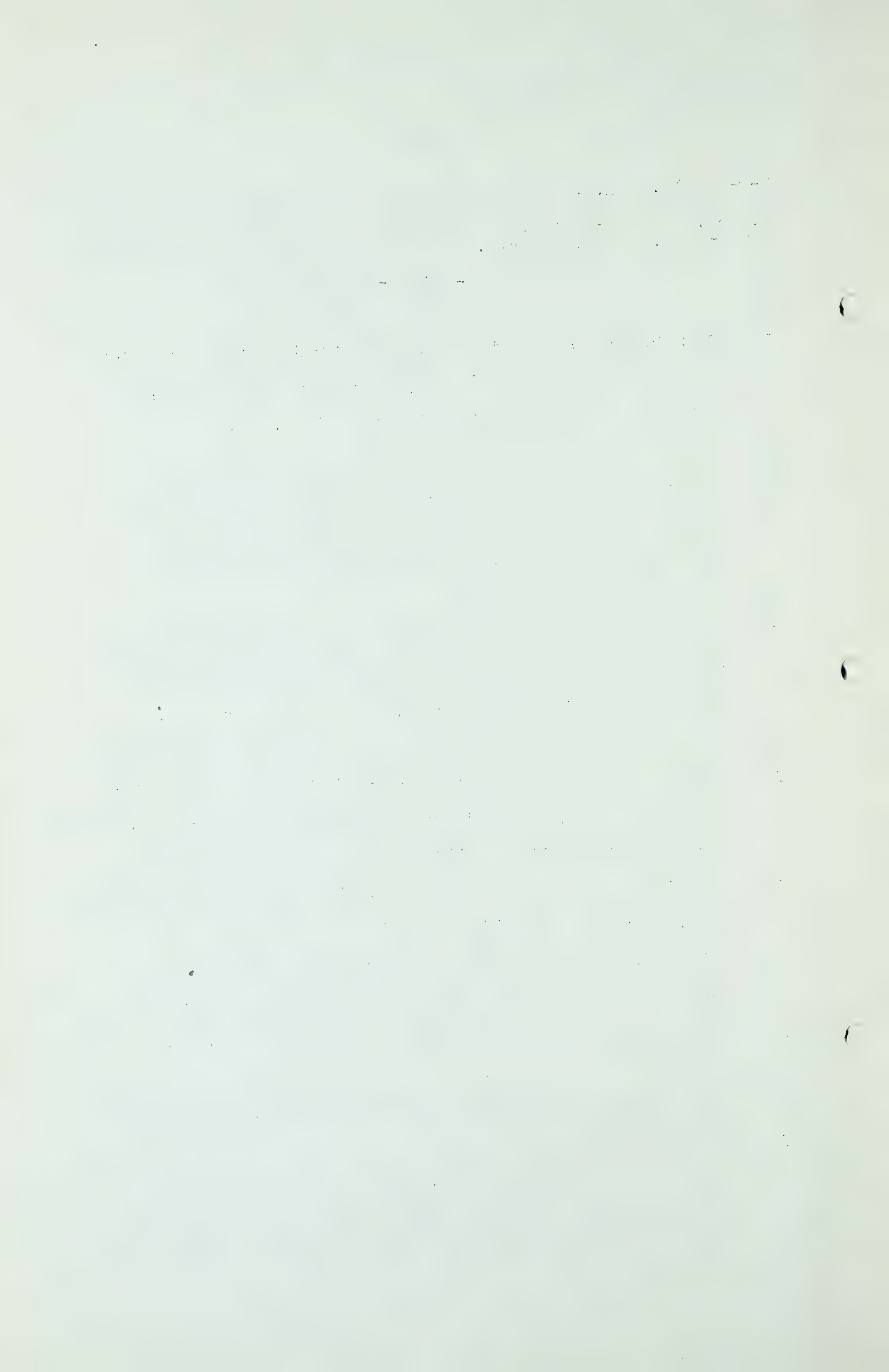
Q Well, take all the time you want to find it?

A You find it, as I say, on the top of page 2, auxiliary plants are dealt with there.

Q Yes?

A In a certain connection. Auxiliary plants appear again on page 3, clause 3.

Q Let us see now, the top of page 2. That includes the pipeline system and that says it is an auxiliary plant, does it not? From what it says on the top of page 2 you



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would not say that your explanation was good, would you?

A It says: "Such additional plant equipment and services."

Q Yes?

A "Hereinafter called the auxiliary plants, which may be necessary to produce and make available for the plants the said feed stocks."

Q Now these are auxiliary plants are they not?

A As it is dealing with the subject here, and has in mind refineries read the whole thing, Mr. Fenerty.

"Agreed to erect and install or cause to be erected and installed in their respective refineries and the absorption plants." That is dealing with absorption plants. It is not dealing with compressor plants but absorption plants.

Q Are these items on page 9 that are referred to as auxiliary plants, do they form any part of the items going to make up the \$470,000.00 referred to on page 4? That is what I want to know now. That will settle it.

A Yes, they form some part, sir.

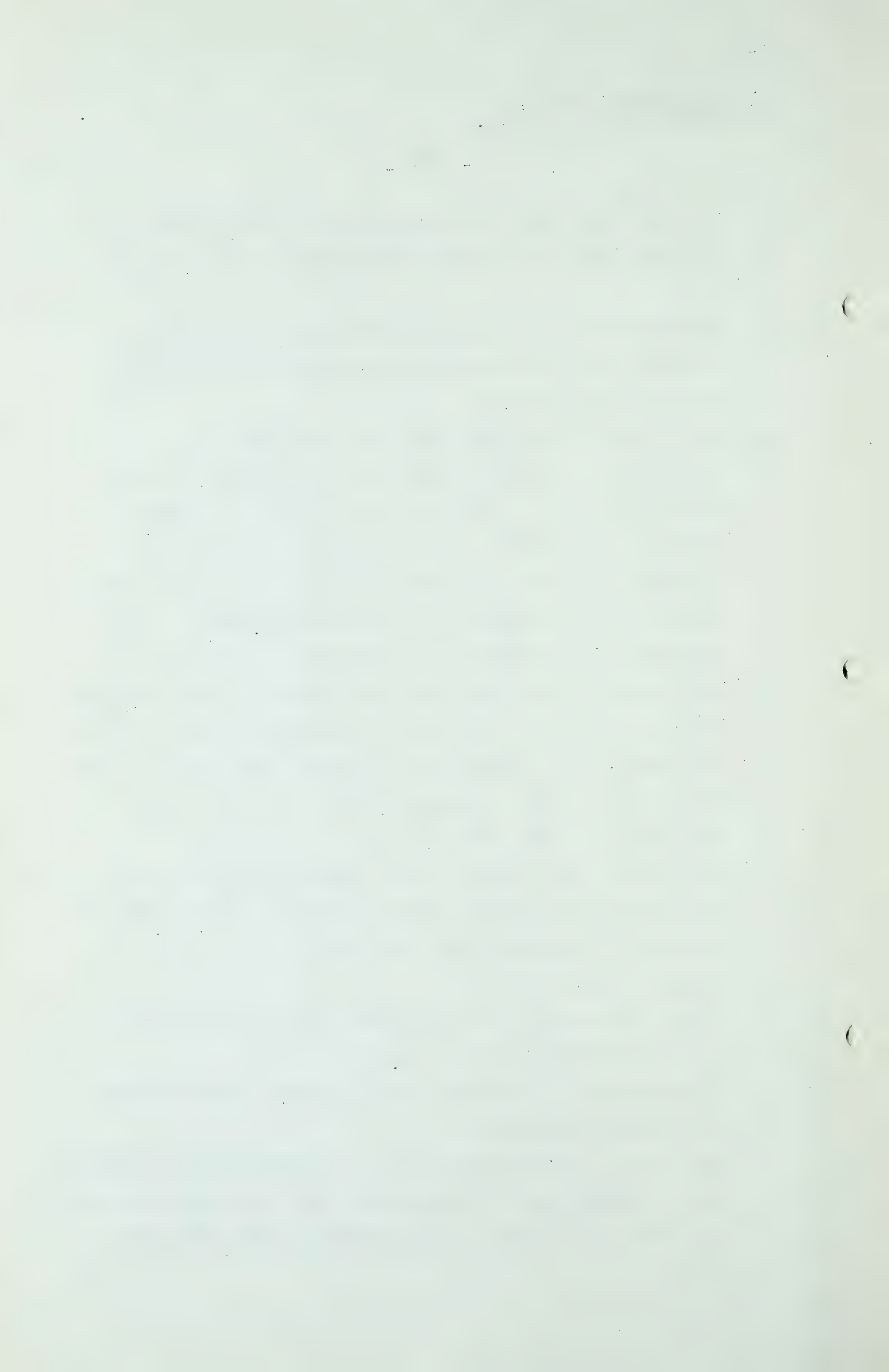
Q All right. That is all I need. Every bit of them that are referred to on page 9 are included in the \$470,000.00 referred to in page 4, are they not?

A Included in, yes.

Q Yes. They are therefore the same things to that extent as the auxiliary plants on page 4?

A Provided you will read the whole of that paragraph below which qualifies that.

Q Now look, I am just asking you, you started at the beginning and I thought I had your agreement that the auxiliary plants included the compressors, and accessory pipe line, the



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gathering pipe line system and the return pipe line for the return of dry or processed gas from the absorption plant to the North end of Turner Valley and you did say to me before that that was included?

A In clause 4, but I very carefully said though

Q And clause 4, that is the \$470,000.00?

A Yes.

Q You have now told me that these items on page 9 which are called auxiliary plants are also included in that item of \$470,000.00?

A That is right.

Q That is right. I now say to you that those items which are included there and they are the ones I am concerned with, being these compressors and pipelines and it has now been said in this agreement that they were constructed solely for the purpose of supplying His Majesty's needs of alkylate blending agents. Can you find anything to the contrary of that?

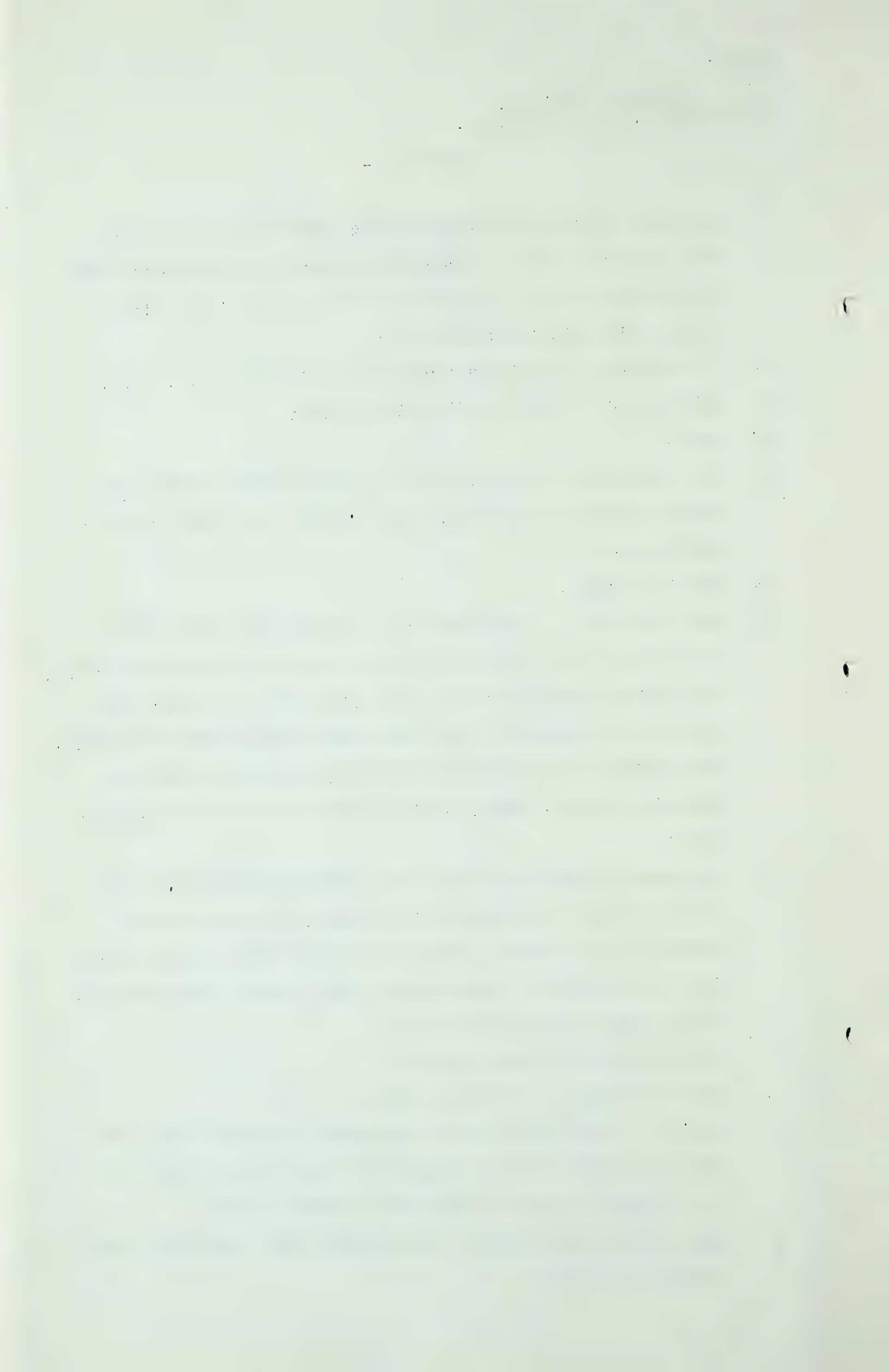
A In reading clause 11(b) you must remember that previously in the contract, in clause 4, it says, or lists a whole number of plants there, specifically and very clearly which it excludes from the operation of (b), so that when reading (b) you must forget about those.

Q I am not talking about page 4?

A Just look through it for a minute.

Q Don't you find that what are excluded are these items and they are excluded in the sense that they are not paid for by the Crown? That is what the agreement says?

A But if they were required for alkylate why would the Crown not pay for them?



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Q Are you going to try and tell me that a number of men negotiated for weeks and solemnly put a lot of items in an agreement purely for the purpose of taking them out again in another paragraph?

A No, sir, that is not what I told you. I told you that they are set out there so that there should be no misunderstanding.

Q They put them there for a purpose, what purpose?

A So that there should not be a misunderstanding such as there is apparently at the moment.

Q Are you trying to tell me that these additional boosters, compressor units for boosting and the gathering lines had nothing to do with your agreement with His Majesty at all? They were not to be counted on by the Crown and had nothing to do with this agreement. Let us see where that gets you to?

A They are mentioned in the agreement.

Q And they are an integral part?

A It depends on what you mean by "an integral part". They were not necessary to supply raw feed stocks.

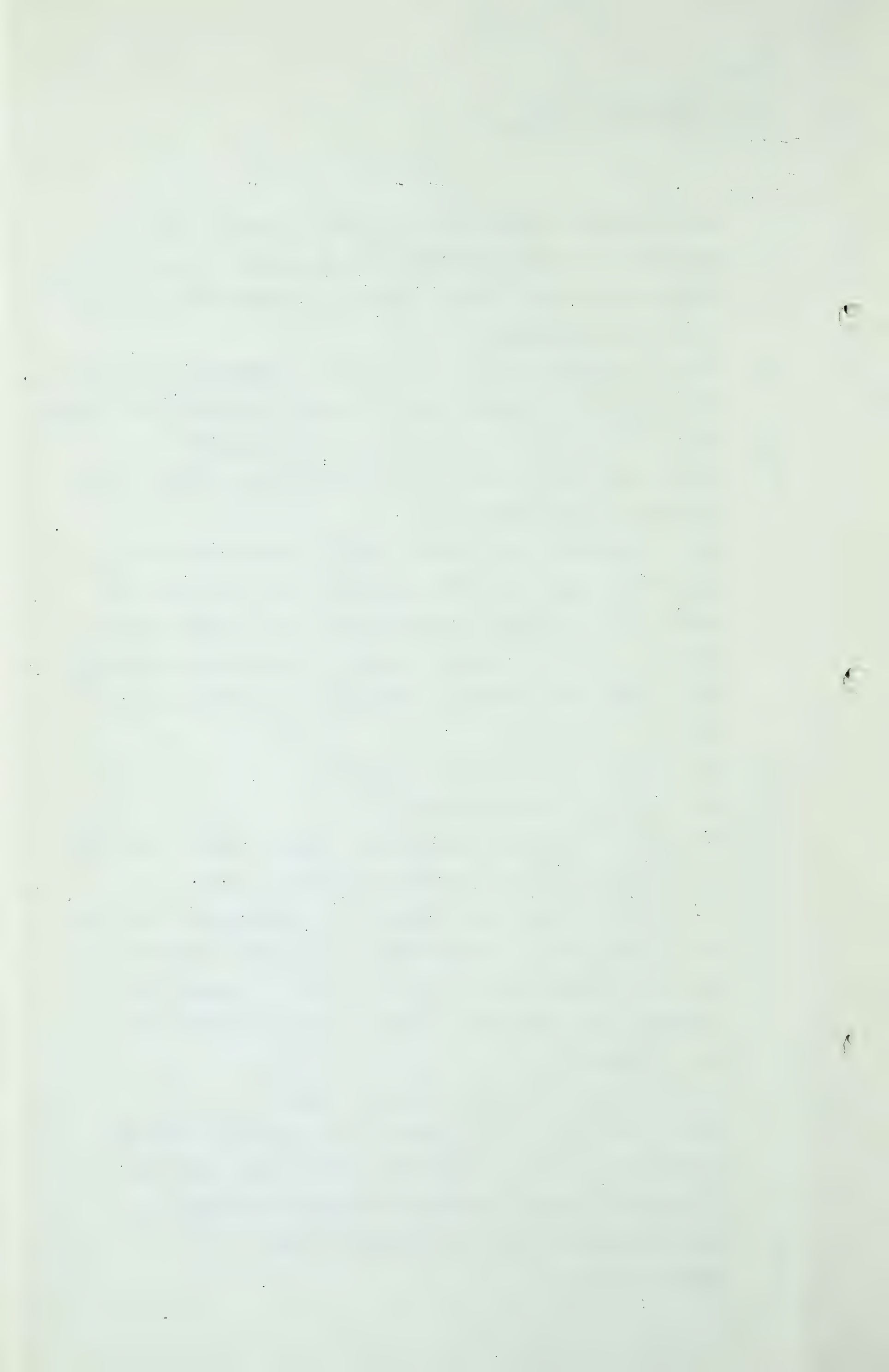
Q We will not quibble about words. An integral part. If your idea of integral is not the same as mine then one of us does not understand what the other means. We will use something else. They are a part of the agreement, let us put it that way.

A They are mentioned in the agreement, yes.

Q And they were put there because it was essential to keep these services and to supply this additional, what shall we call it, material that the Government required.

A I have already told you that they were not.

Q They were not?



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A I have already said so.

Q All right, now let us look at something else. Will you look at page 9 and near the lower middle part, "The Plant and auxiliary plants are of a type and size which do not appear to be required by Imperial Oil and British American."

A Wait a minute, I have not followed where you are reading from, sir.

MR. CHAMBERS: What page?

MR. FENERTY: Page 9.

A Page 9 in clause (b) the fourth line before the single spacing.

Q MR. FENERTY: "As is represented by Imperial Oil and British American, the Plant and auxiliary plants are of a type and size which do not now appear to be required by Imperial Oil and British American." Now is that referring to after these additions are made to it or is it referring to the original plant?

A Well, sir, as I have already pointed out once before to you
.

Q Just tell me what they are referring to?

A They are referring to the plant and to the whole additions as given in clause 4.

Q That is with the addition of this new equipment?

A That is right.

Q So that this was not required either by Imperial Oil or by British American?

A Now what do you mean by "this"?

Q Well I will ask about the auxiliary plants?

A When you say auxiliary plants specify to me which ones you mean.

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Q The additions?

A All additions?

Q Let us not argue?

A All the additions in the \$470,000.00?

Q Yes? Just what the contract says?

A No, because you fail every time to remember that in clause 4 it tells you that certain things are specifically excluded from the paragraph you now are reading from.

Q Does it?

A Yes.

Q Does it?

A Yes.

THE CHAIRMAN: Mr. Fenerty, what Mr. Stevens-Guille is saying as I understand it is this that "auxiliary plants" means those things which appear in 4 with figures opposite them minus those things that appear in the sub-paragraph. He may be wrong. I do not know yet, but that is what he is saying.

Q You say "auxiliary plants" means those things which have figures opposite them in clause 4 minus those items enumerated in the sub-paragraph?

A Yes.

THE CHAIRMAN: That is what he said.

Q MR. FENERTY: And your reason I take it, then, for seeking to load the cost of this construction on the consumer is that you now say they were not constructed solely for the purpose of supplying His Majesty's needs of alkylate blending agent?

A Firstly

Q Just answer that?

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MR. CHAMBERS: He is answering it.

A Do you want me to answer it, Mr. Fenerty?

Q Yes?

A I am trying to. Firstly, you say we are asking for the cost of the construction. Did you not?

Q Yes?

A Well we are not. We are asking for Hill's Reproduction Costs of these plants. That is something quite different.

Q With that correction, and if there are any other fine distinctions you want to make, you make them now so we will not be quibbling?

A It is not a fine distinction. It is a very important point.

Q All right. I am not going into Reproduction Costs with you on this question, assuming you are asking for Reproduction Costs and assuming you ever get that or you do not get that, what is your

A What is the second half of your question?

Q I am glad for once you have driven yourself down a side alley. Now we will get the question?

A There is no side alley in correcting you when you make an incorrect statement to me, sir.

Q All right, let us get the question?

BY THE REPORTER READING: "Q. And your reason, I take it then, for seeking to load the cost of this construction on the consumer is that you now say they were not constructed solely for the purpose of supplying His Majesty's needs of alkylate blending agent. "

A Again, as I said before, they were not constructed to produce iso-butane. Iso-butane supplied to the alkylate plant was already being adequately supplied by the equipment

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as then set up. They were constructed under conservation which was then being urged by the Conservation Board.

Q I see. Now as a matter of fact I did not ask you anything about iso-butane specifically, did I? I am not competent to go into a discussion with you as to that particular thing as compared with any other elements?

A Then what do you mean by "this supply being solely for His Majesty's use"?

Q I do not know. That is the words in the agreement?

A My understanding of what it means in the agreement is to supply iso-butane.

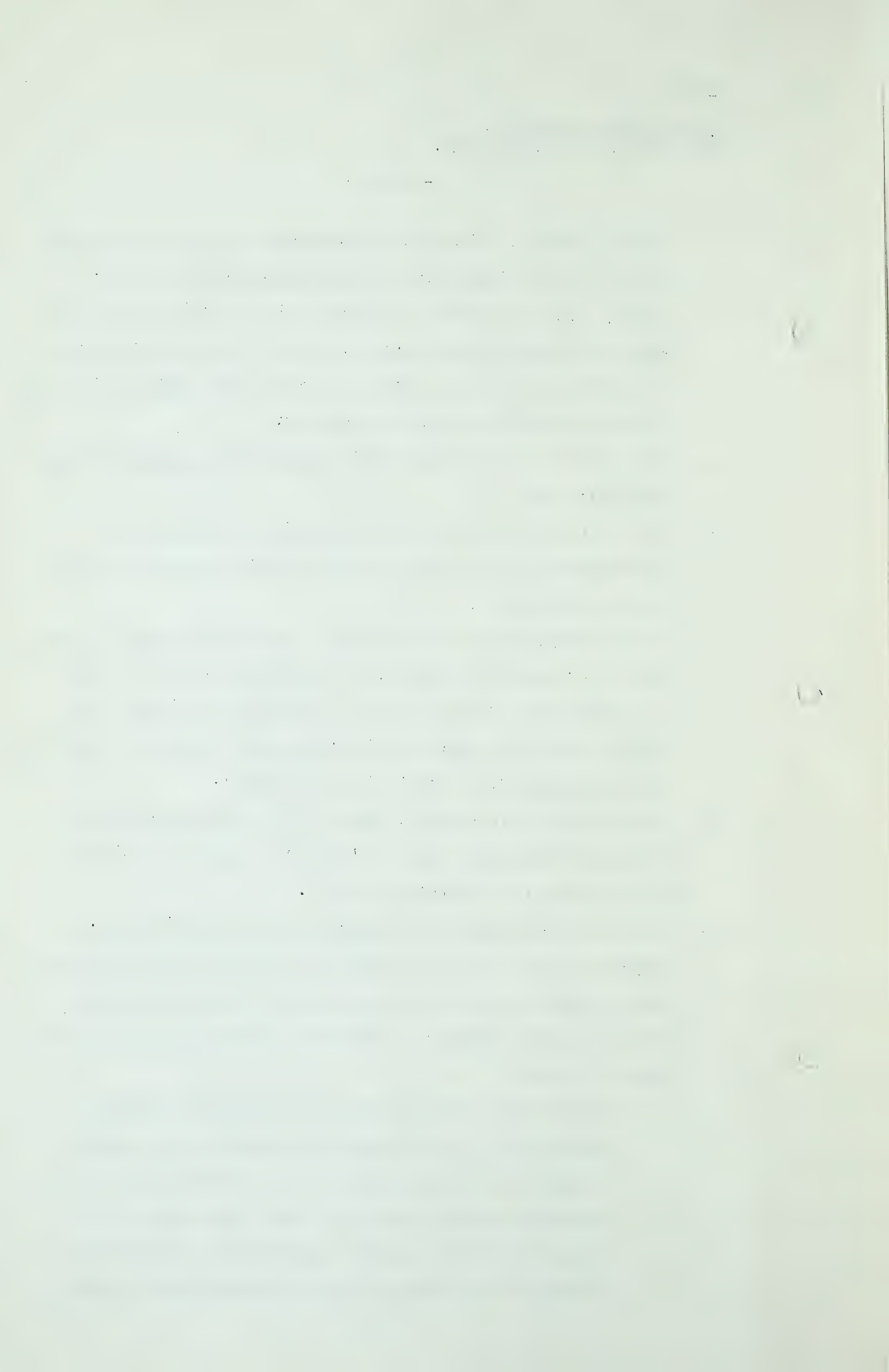
Q Is your theory that the agreement does not say what I have read or it does not mean what I have read, which is it?

A No, my theory, if you like to call it that, is that you fail to take into account in clause 11(b), when you read it, what is specifically said in clause 4(a).

Q Let us get it once more. What do you think was meant by the words "auxiliary plants" in (b) on page 9? You tell me the things it is talking about.

A The auxiliary plants are everything in the \$470,000.00, auxiliary plant item of clause 4, excepting the items which are excluded. If you will read with me that paragraph. Perhaps we had better read the whole paragraph and have it clear for once.

"The parties hereto hereby agree that the amounts expended or to be expended by Royalite Oil Company Limited for compressors and the accessory pipelines installed to boost gas from the south end of the Turner Valley to the No. 1 Absorption Plant of the Royalite Oil Company Limited located near the town



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"of Turner Valley in the Province of Alberta estimated at the sum of One Hundred and Forty-eight thousand Dollars (\$148,000); the amount expended or to be expended for the gathering pipe-line system in and from the north end of the Turner Valley estimated at the sum of Eighty-eight Thousand Dollars (\$88,000) and the amount expended or to be expended for the return dry or processed gas pipe-line from the said Absorption Plant of the Royalite Oil Company Limited to the north end of the Turner Valley estimated at the sum of Seventy-five Thousand Dollars (\$75,000), (the whole forming a present estimated expenditure of Three Hundred and Eleven Thousand Dollars (\$311,000), and all expenditures made or to be made by the Valley Pipe Line Company Limited estimated at the sum of Sixty-nine Thousand Dollars (\$69,000) are excluded from the operation of the provisions of Paragraph (b) of Clause 11 of this agreement."

So when I turn to clause 11 (b) and read "Plant and auxiliary plants," I exclude the items I have just enumerated.

Q Clause 11 says you do not get paid for them?

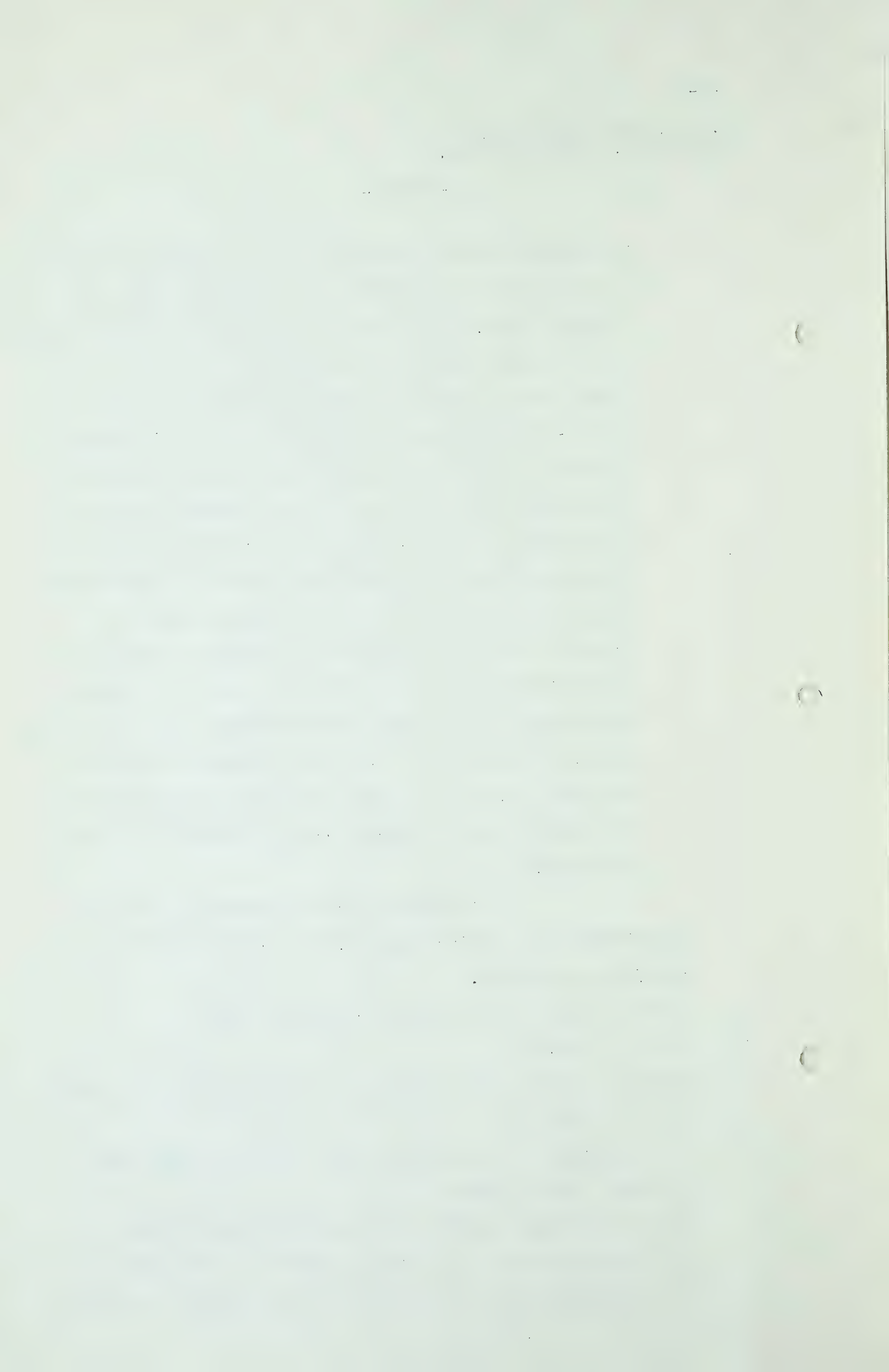
A That is right.

Q They are in the contract but you do not get paid for them?

A That is right.

THE CHAIRMAN: I do not know. Will you read that question, Mr. Taylor?

BY THE REPORTER READING: "Q. Clause 11 says you do not get paid for them? A. That is right. Q. They are in the contract but you do not get paid for them? A. That is



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right".

Q MR. FENERTY: I am trying to learn something about this and you will have to be patient with me, you know. My understanding is you do refer to the fact that due to the requirements of the Crown, I take it under this contract, or due to war requirements, there might be a danger of having to shut off I think you mentioned the Nitrogen Plant, due to this agreement?

A Due to this agreement?

Q Or due to your requirements for war purposes, was that not it?

A No, sir. Due to the Brown Plan.

Q Due to the Brown Plan?

A Yes.

Q Oh yes, because of the allowables?

A That is right.

Q That you might not be able to produce sufficient under the allowables under the Brown Plan?

A That is correct.

Q I remember that. That is correct. You might have to shut off the Nitrogen Plant?

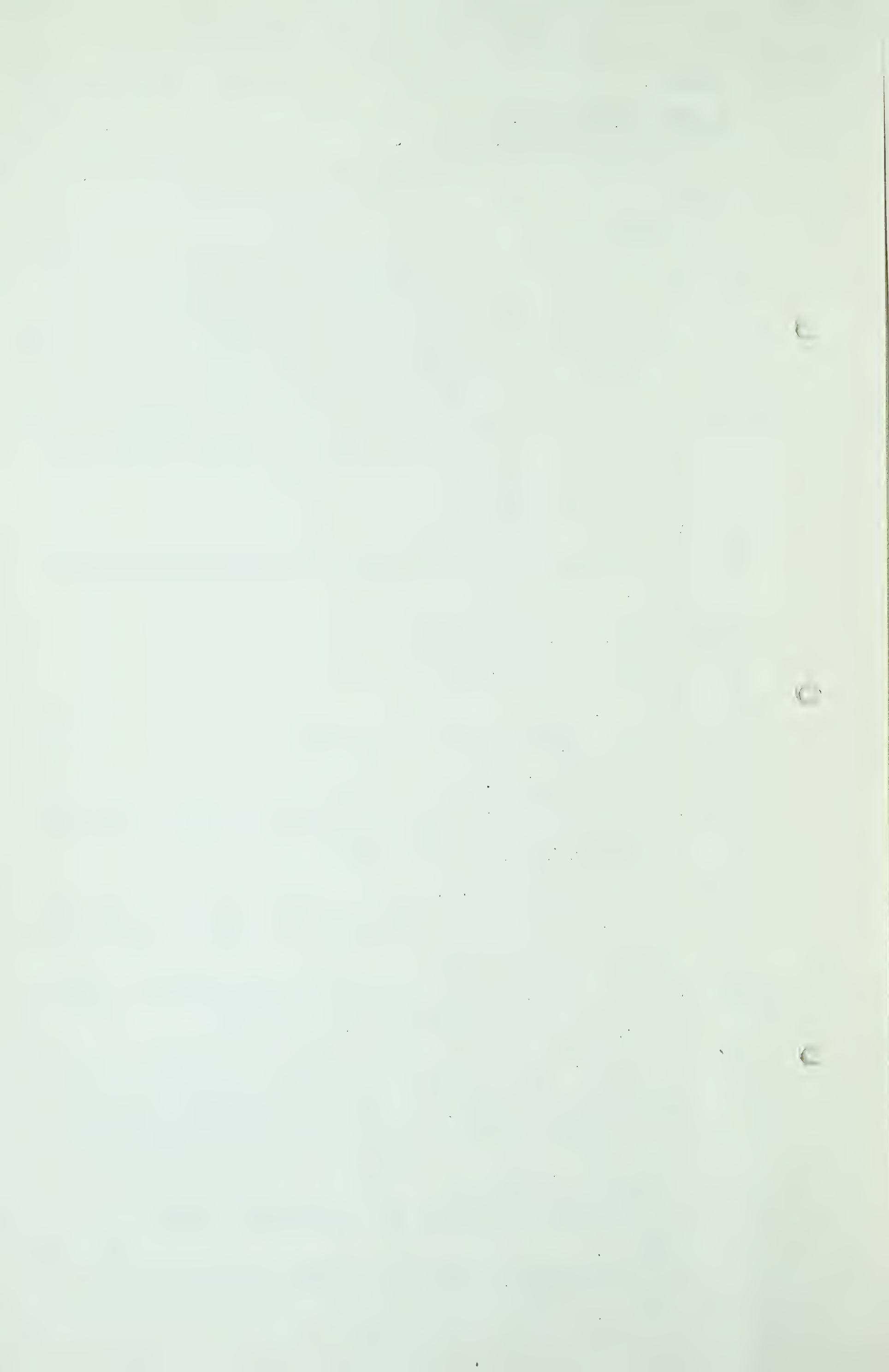
A We had a choice of over-producing the allowables or shutting it off if the over-production was not made.

Q All right. By the way, did you get any iso-butane or any additional iso-butane as a result of the installation of the Northern gathering lines and the Number 3 Compressor Station?

A To answer the first part of your question first.

Q Yes?

A Yes, the Northern return fuel lines, yes we did.



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Q And did the No. 3 Compressor Station have anything to do with it?

A The Number 3 Compressor Station, no.

Q I perhaps am spending a lot of time on something which actually might not be important at all?

A We got less iso-butane from the gas gathered by the Compressor Station Number 3 than we were getting through the Gasoline Plant No. 2 before the consolidation. So that we lost some part of the supply of iso-butane.

Q I am talking probably about some things that are after-thoughts, when I come to think of them. You referred me to a definition of auxiliary plants on the top of page 2 as the explanation of your theory. You see on the top of page 2 exactly the same words "auxiliary plants" are used?

A That is so.

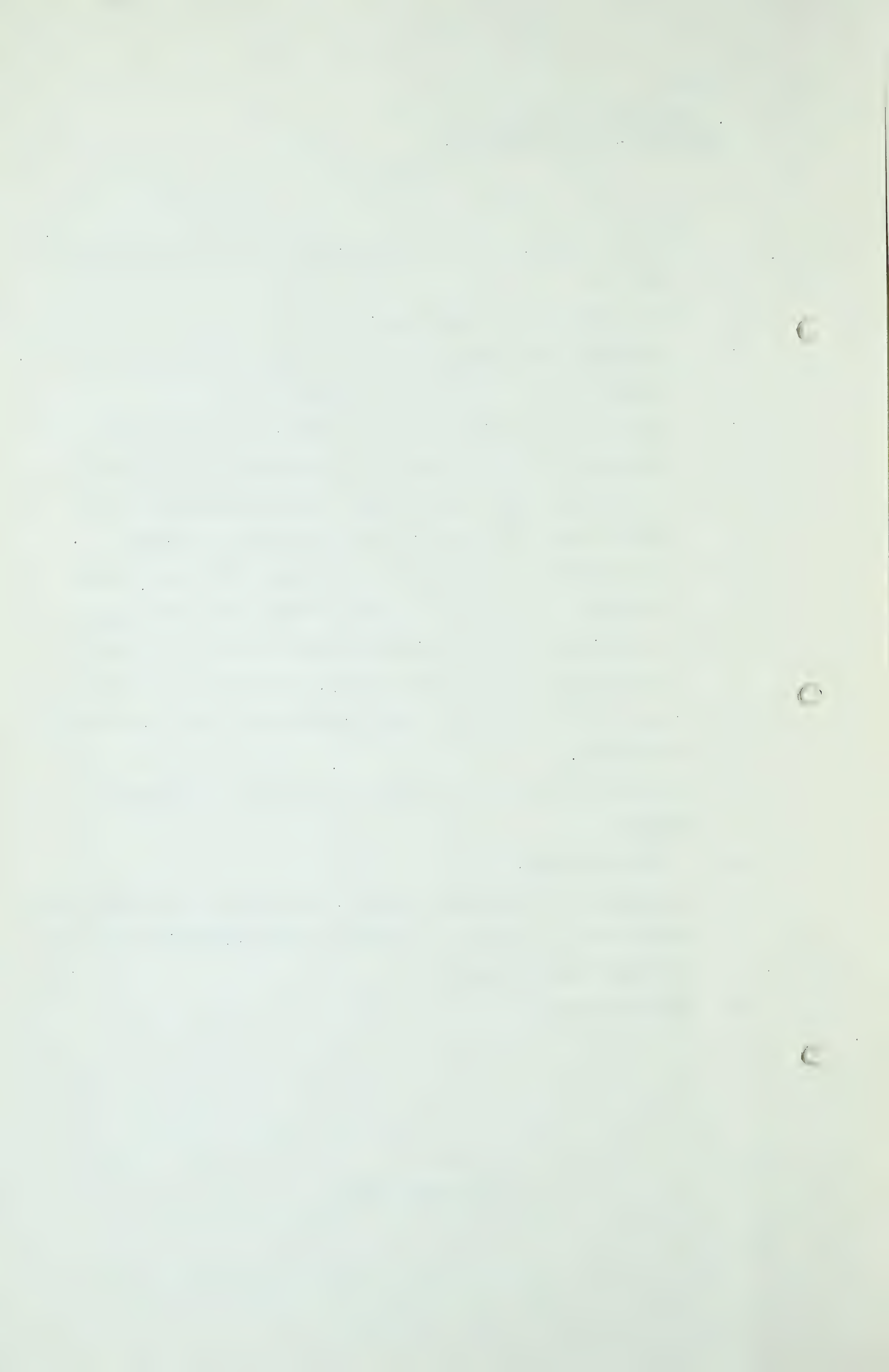
Q As are used in the statement on page 9.(b) referred to there?

A That is correct.

Q Regarding the auxiliary plants which are to be constructed solely for the purpose of supplying His Majesty's needs of alkylate blending agent?

A That is right.

(Go to page 5679)



C-2-1 10.55 a.m.

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Q Now, will you agree with me that the words "auxiliary plants" on the top of page 2 refer to the same things as those on page 9, the same words?

A They are the same words but they do not refer to the same things.

Q Oh, I see. Now let us get that; the words "auxiliary plants" on page 4 and the words "auxiliary plants" on page 2, and the words "auxiliary plants" on page 9, they do not refer to the same things, they are all different things, are they?

A Not all different things, no sir.

Q Oh?

A But the use of the words "auxiliary plants" in Clause 4 is specifically qualified by that long clause I read on page 9.

Q Then I am going to ask you to tell me what you think each of these three definitions refer to, put them down in writing and we will look at them?

A Certainly.

Q All right, first of all on page 2, we will take them in order, what do you think is referred to in that?

MR. BLANCHARD: At the top of page 2.

Q MR. FENERTY: At the top of page 2?

A May I read into the record what the clause said, so that we have the context?

Q Certainly?

A Reading from the bottom of page 1:

" WHEREAS, at the request of His Majesty, Imperial has agreed to erect in its refinery plant limits at Calgary an alkylation plant, hereinafter called "the Plant" which will process the said feed stocks, and Imperial and British American have respectively agreed

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"to erect and instal or cause to be erected and installed, in their respective refineries and the absorption plants and pipe line systems owned by them or by subsidiary companies, such additional plant, equipment and services, hereinafter called the "Auxiliary plants" as may be necessary to produce and make available for the Plant the said feed stocks required for the production of the product, the whole upon the understanding that, to the extent and in the manner hereinafter specified Imperial and British American will be protected by His Majesty against any loss in capital value, to be determined as hereinafter set forth in Section 3 of paragraph (b) of Clause 11, which might be sustained because of their investments in the plant and/or any of the auxiliary plants."

Q Yes?

A "Auxiliary plants" means there definitely the plants, in my view, definitely the plants put in the absorption plant.

Q Yes.

A The equipment which was first installed in 1942 and 1943 met the full requirements of iso-butane for the alkylate plant.

Q All right. Now let us get that, that is your explanation of that definition, that it means the plant in the absorption plant?

A The additions to the absorption plant and in addition the pipe line systems referred to, undoubtedly the Valley Pipe Line system at that time.

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Q It does mean the pipe line system?

A The Valley Pipe Line system.

Q Oh, and the Valley Pipe Line system?

A They also added some equipment at that time in order to be able to pump the iso-butane into the refinery.

Q And what is meant by the words "auxiliary plants" on page 9, is it?

A I imagine you will want to cover page 4 first.

Q Yes, page 4; "Auxiliary Plants".

MR. CHAMBERS: And also page 3.

A Where is it used on page 3?

MR. CHAMBERS: The last paragraph on Page 3.

WITNESS: Oh, the last paragraph on page 3.

MR. CHAMBERS: And the first and second paragraphs of Clause 3 on page 3?

A Yes, Clause 3, page 3, "Construction of Plant".

Q MR. FENERTY: Yes.

A "Imperial agrees to construct and complete the Plant as rapidly as possible within its refinery limits at Calgary, and also to construct and complete or cause to be constructed and completed as rapidly as possible the auxiliary plant necessary for the purpose of this contract at its refinery in Calgary, at the two absorption plants in Turner Valley owned by the Royalite Oil Company Limited, hereinafter sometimes called 'Royalite', and in the pipe line system owned by the Valley Pipe Line Company Limited."

Q Yes?

A And the same interpretation carries there as I gave for the

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clause on page 2.

Q Yes?

MR. CHAMBERS: Then there is another at the bottom.

THE CHAIRMAN: Just a moment, we will take a short adjournment now.

(A short adjournment was here taken).

(After adjournment).

Q MR. FENERTY: I am going to try to shorten this up, Mr. Stevens-Guille, I am going to try and I think I can shorten this up, and I am going to ask you if you will be good enough and it rests with you whether you will or not,

MR. HARVIE: A little louder please.

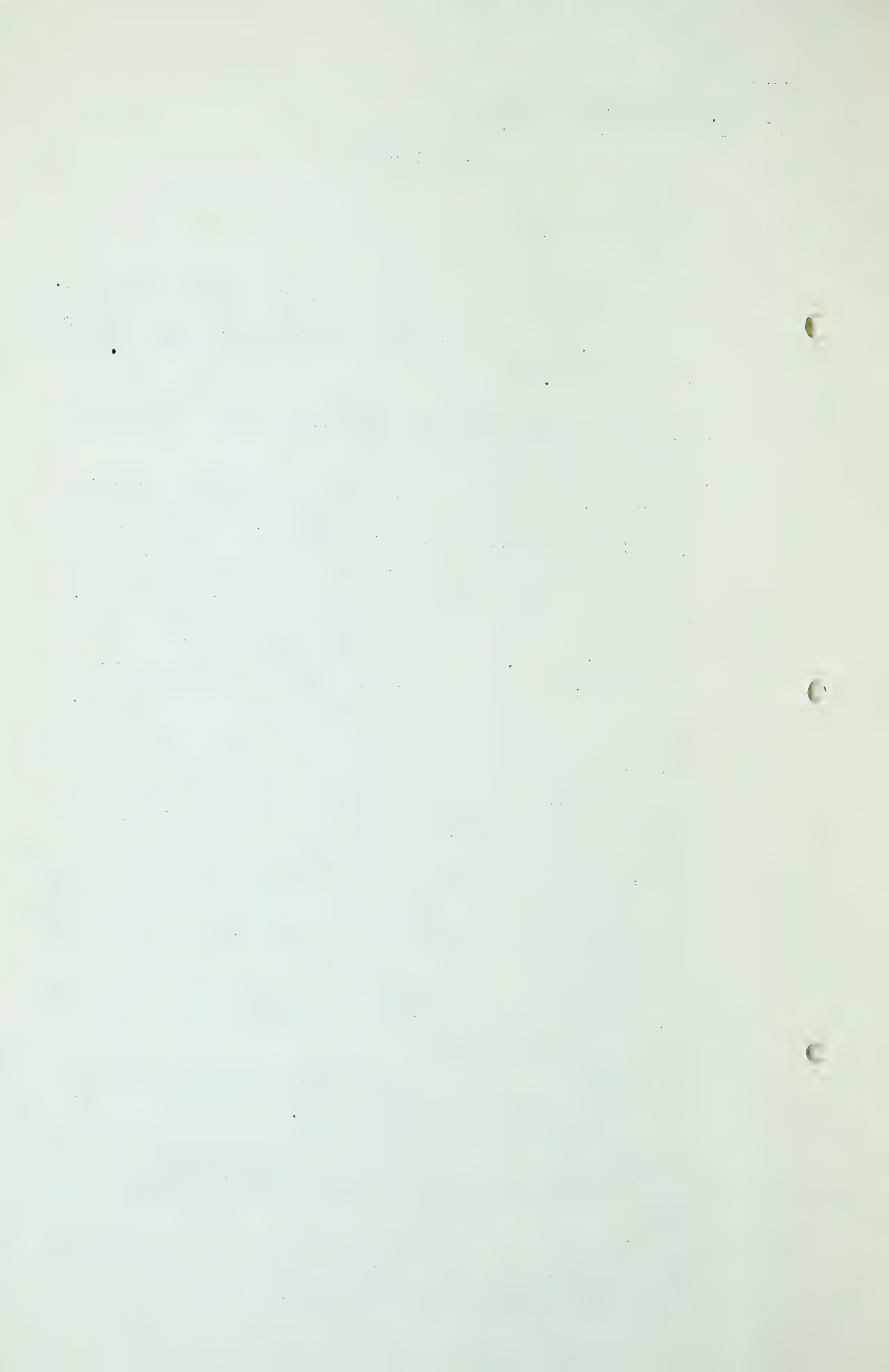
Q MR. FENERTY: I say I am going to ask you if you will be good enough and it rests with you whether you do or not, not to take advantage of any technical ignorance which I may possess, and if you think you know the intent and meaning of my question, and correct me on the point if I am wrong, but I am going to ask you to give me a full and frank and fair answer, and I am prompted to make that observation by a remark which you made to me before, when I referred to the "costs".....

MR. CHAMBERS: Now I do suggest that that is not fair and I object to it.

MR. FENERTY: I just wanted to make it clear, that I want a frank and fair answer.

MR. CHAMBERS: No, but you are implying that he has not been frank and I am taking exception to that statement.

MR. FENERTY: No, I do not say he has not been frank but I am going to ask him again:



- Q MR. FENERTY: Mr. Stevens-Guille, if you think you know what I mean by my question, that you try and answer what you think the question is?
- A Well will you ask me one question at a time so that I can follow along behind you.
- Q Yes, I realize that I am at fault but you must remember that there are many aspects, of the meaning of these things technically, and I may not use the exact words, but I am going to ask you to still give me an answer to what you think I am talking about, and not base it, your answer, on some technical distinction between the words I use, that is reasonable, is it not?
- A Yes, but I have to stay with the facts, which I do not think you always realize.
- Q What is that?
- A I have to stay with the facts in making my answers, which I do not think you always realize.
- Q Now with that in mind, I am just going to ask you again about this iso-butane, would you tell me whether or not the effect of the installation of these modern gathering lines was to enable you to get some iso-butane that you would not otherwise have obtained, I think you told me you did get some?
- A Yes. The extension of the Northern gas gathering lines, in conjunction with the return fuel line, did, at that time, increase the iso-butane production.
- Q And would you tell me whether the installation of the No. 3 Compressor Station had the effect of your obtaining some iso-butane that you would not otherwise have obtained?
- A Well I answered that just now and you would not listen to my answer, Mr. Fenerty. I said we got less from the compressor

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station 3.

Q You said "No", did you not?

A No.

Q But I did not know that I put the question just in that way, you say that you did not obtain any iso-butane through the Number 3 Compressor, the installation of the Number 3 Compressor Station, that you would not otherwise have obtained?

A That is correct, and in actual fact we obtained less.

Q Did you get some through the Number 3 Compressor Station?

A Certainly.

Q Now if you had not had the Number 3 Compressor Station where would you have obtained it?

A From Gasoline Plant No. 2, which was already in operation.

Q I see?

A And that is where we did obtain it.

Q Would you have obtained it without over-producing your wells?

A Offhand I think that we probably would have had to over-produce the wells merely from the angle of producing the iso-butane.

Q Yes, you see what I mean, you know what I mean, you were going to get it by over-producing your wells illegally, that is what you mean is it not?

A Well we did get it from over-producing our wells illegally, if that is the correct phrase, and we paid compensation for so doing, with the other producers in Turner Valley.

Q Do not answer this question if or until your Counsel objects, do you think you have been frank with me when you told me that....

MR. CHAMBERS: No, do not answer that. He can answer it if he wants to.

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- Q MR. FENERTY: That is what you meant, you would go along just in the way you probably were long before you had the litigation over your over-production, would you not?
- A I did not understand your question, Mr. Fenerty, will you repeat it?
- Q You did not?
- A No, I did not, will you repeat it?
- Q Well, you are going to over-produce your wells?
- A Well I have already said we did, I said so this morning, it is common knowledge and everybody knows we paid compensation for so doing, and I am not being not frank in not telling you that. I have told it in this Court Room this morning and it is common knowledge.
- Q Have you anything in mind that you know, that I do not know about, and if so tell me about it?
- A I do not understand your question.
- Q Have you any reason to suppose you would be permitted to over-produce your wells, is that not plain?
- A The wells were over-produced for war purposes.
- Q Yes, and have you any reason to suppose you would be allowed to continue to over-produce your wells, just tell me whether you do or not?
- A We might have been able to do so and paid compensation, I would say so, Sir.
- Q But had you any reason to suppose you would be allowed to?
- A Nobody shut the wells in so we had reason to suppose we could.
- Q I can ask this question all day and I am going to ask it again and again, had you any reason to suppose that you would be allowed to continue to over-produce your wells?
- A I refer you to a clause in the contract in answer to that

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question, Mr. Fenerty.

Q Well I wonder if I might sit down, well, all right, perhaps you have something in the contract which says you can overproduce your wells and if so show it to me, and we will go on then to something else.

MR. HARVIE: Possibly on page 6 is what you are looking for?

WITNESS: That is probably what I am looking for,

MR. HARVIE: And the second paragraph?

A Yes.

MR. FENERTY: By the way, is the Conservation Board a party to this?

MR. CHAMBERS: No, not the Conservation Board.

WITNESS: This reads:

" It is understood and agreed that if by reason of orders or regulations imposed by Governments, whether Dominion or Provincial or by Commissions, boards, controllers or others exercising powers conferred on them by a Government, the supply of feed stocks which Imperial and British American could otherwise furnish pursuant to this contract is curtailed, and Imperial and British American are thereby rendered unable to so supply the feed stocks contemplated herein in sufficient quantities to utilize the Plant so as to produce not less than Seven Million Imperial gallons of the product per year, His Majesty agrees in so far as is reasonably possible to assist Imperial and British American in obtaining sufficient supplies of feed stocks to enable the Plant to be operated at capacity or

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"at such capacity then desired by His Majesty."

Q Yes, but.....

A Now let me finish my answer, if I may, Mr. Fenerty.

Q Yes, go on?

A If other considerations had not come in, and one is the supply of sufficient gas to the fuel market, also for war purposes.....

Q Yes?

A At that time, and if conservation had not been one of the main objects of the Conservation Board at that time.....

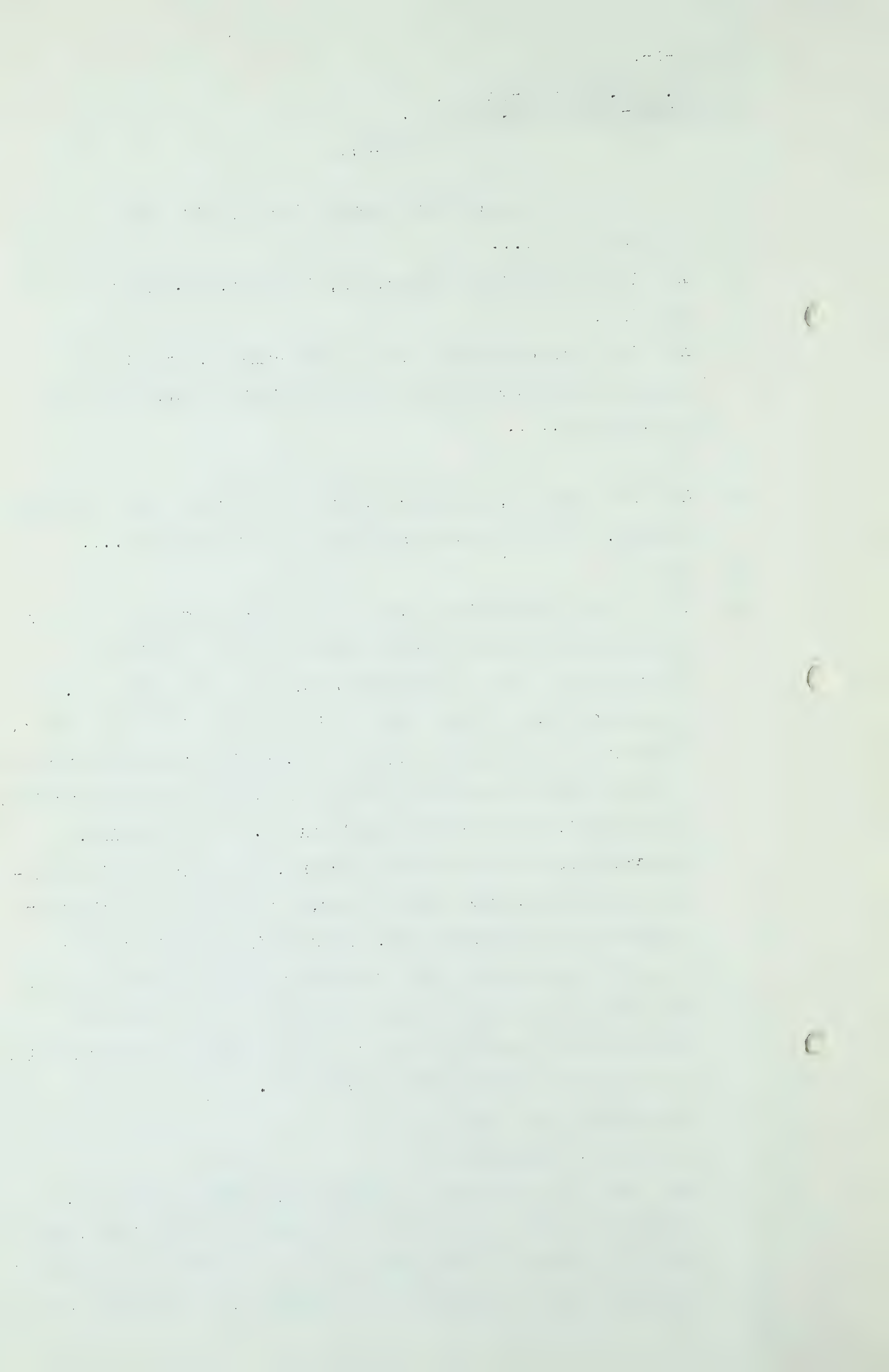
Q Yes?

A It is quite believable to me that arrangements might have been made through this clause to produce the iso-butane wanted solely for war purposes, but let me add this, that supposing, - and I have said this once before but I do not think you got it clearly in mind, - that supposing Plant No. 1 had not been consolidated before this Board was constituted, and a flare had existed at Plant No. 2 at that time, the consolidation or some such scheme, such for example as installing residue gas boosters, would have obviously been something to contemplate, and some installations be made along the lines which have been made for the residue gas, with the other plants in the South end, so if it had not been done then, my suggestion to you is, and my opinion is, that it would have been done by now.

Q Would have been done?

A By now, the consolidation.

Q Yes? Now I do not want to take any more time on that, you remember I asked you, had you any reason to believe that you would be allowed to over-produce and you referred me to this paragraph, which I suggest to you indicates a reason to



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believe that you would not be allowed to over-produce, that you were contemplating that situation and contemplating where you would get your stock, do you think that?

A You may read it that way, I read it the opposite.

Q Your answer is that in the wording of the agreement between the Crown, the Imperial Oil and the British American, you find in that agreement, justification for saying that you could over-produce your wells, is that it, and if that is your answer I will leave it at that?

A That, in my opinion, would lead me to believe that had we not been able to supply the iso-butane without over-producing, that arrangements might have been made to over-produce.

Q Yes, and will you go this far with me then, that the reason this extension was provided was so that you could, if possible, supply the war requirements without over-producing your wells?

A Well, quite definitely, Mr. Fenerty, as I pointed out earlier, the Allied War Supplies Corporation was a party to the conservation scheme, was interested in it, and one of the things in mind, that I said then, and it was no lack of frankness, I said it then and I repeat it now, the supplying of iso-butane was one of the considerations in mind.

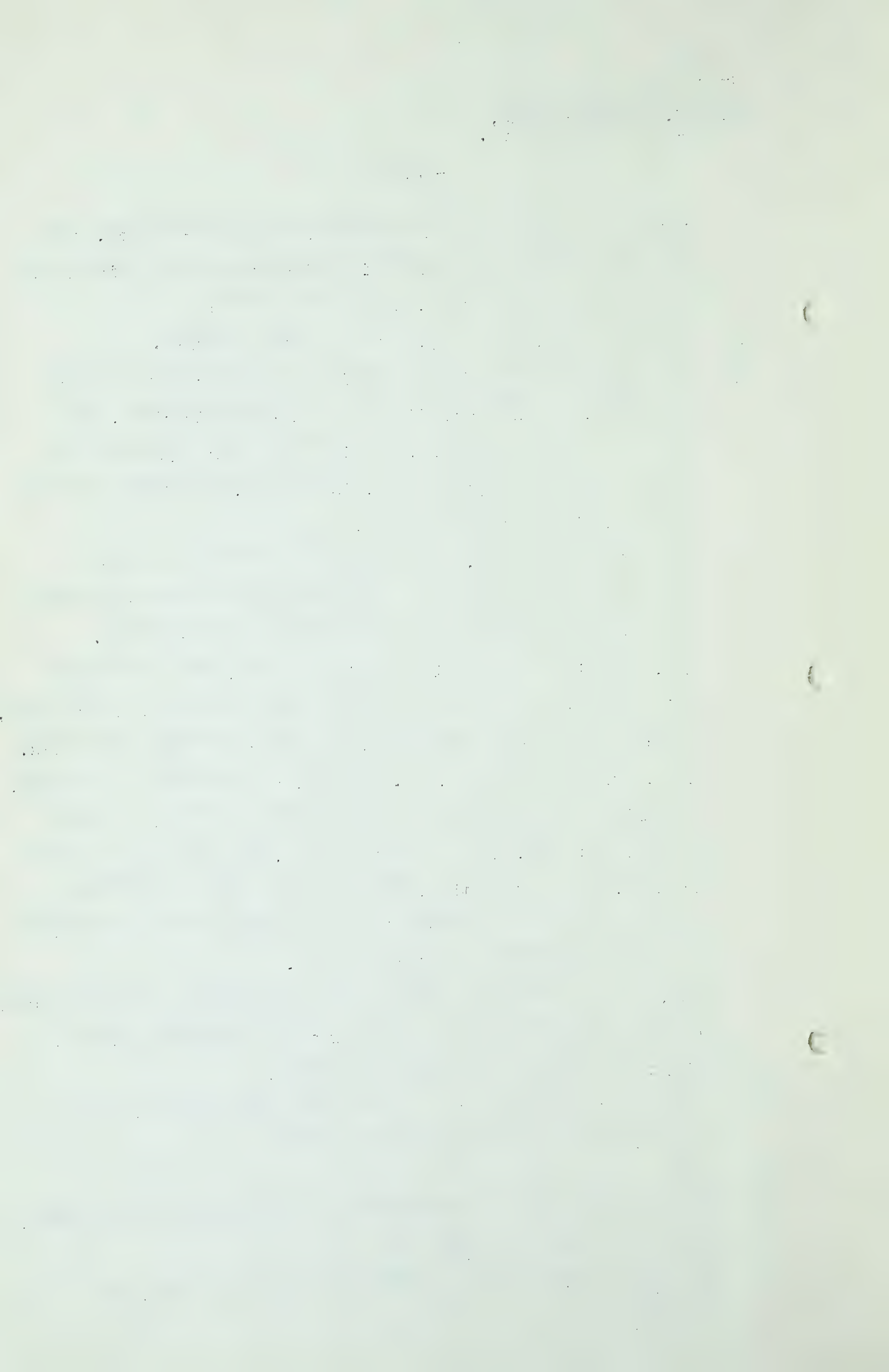
Q Yes, and will you agree with me that the result of the extension of that plant was that you are now on the scene here with a plant of the type and size not required?

A Will I agree with you that we are now on the scene with a type and size of plant we do not require?

Q Yes?

A No sir, except for the iso-butane facilities in the plant, I never made such a suggestion.

Q And that is susceptible to some other meaning then, that remark?



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A What remark?

Q That paragraph in the agreement:

"and as is represented by Imperial Oil and British
American"

A What page are you reading from?

Q The bottom of Page 9?

A We are not back to that clause, are we?

Q "And as is represented by Imperial Oil and British American
the plant and auxiliary plants are of a type and
size which do not now appear to be required by
Imperial Oil and British American".

You see the two things, "type" and "size", do you say that
was correct when that was represented?

A Yes, it is correct.

Q That is all I wanted.

A I have not finished speaking.

Q If you want to explain something about it, do it, but I
do not want anything more, I just wanted to know if it was
correct.

THE CHAIRMAN: Go ahead and finish.

WITNESS: That is correct, if you read the
Clause 11(b) as we have gone over it about five or six times
this morning, in conjunction with the earlier clauses in
the same contract, Clause 4 which definitely explains what
it means in Clause 11 (b). If you ignore Clause 4, as you
do every time when you read Clause 11(b), you can read all
kinds of meanings into it which obviously were not intended.

Q MR. FENERTY: I am going to leave it because each
of us thinks the other is not being fair?

A It is very kind of you to express my views, Sir, but I do

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" " Mr. Blanchard.

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not think they are quite correct.

MR. FENERTY: That is all, thank you.

THE CHAIRMAN: Mr. Harvie?

MR. HARVIE: Nothing.

THE CHAIRMAN: Mr. McDonald?

MR. McDONALD: I thought I would follow Mr.
Blanchard, he has had a chance to peruse the contract.

MR. BLANCHARD: I have had a chance but I do not
know whether I know very much about it.

.....

CROSS-EXAMINATION BY MR. BLANCHARD

Q I was just going to ask you one or two questions as to this
scheme, and I would like to refer you to Schedule "B" of the
contract, Exhibit 147, which is "Computation of Price of 19.03
Cents Payable by His Majesty", for the iso-butane.....

A For the iso-butane?

Q For the alkylate?

A For the alkylate. Before you proceed, Mr. Blanchard, I
might save time by telling you that I have no connection
and have no knowledge of the sale of the alkylate, that was
not a part of the contract which affected Royalite.

Q Well do you know anything about this deduction for deprec-
iation that is mentioned in Schedule "B", which says, and I
am quoting:

"Less depreciation allowed, computed as 50%
of the value of a plant costing \$1,215,376.00
spread over a production of 7 million Imperial
gallons".

A Well that capital investment there, sir, that one million,
two hundred and fifteen thousand, three hundred and seventy-
six, applies to the alkylate plant, as I understand it

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and not to the plants which were installed in Turner Valley.

Q How do we get that figure of \$1,215,376.00?

A I cannot tell you that either. I have no knowledge of the arrangements of the alkylate plant.

Q Well, do you know whether or not it covers anything more than the alkylate plant?

A Well the cost, I think we can find that probably from the contract, sir, the cost of the alkylate plant contract is a greater figure than that, \$1,319,000.00, and the alkylate plant, I am reading now from page 4, Clause 4, "the alkylate plant proper is \$1,319,000.00 and the auxiliary plant within Imperial Refinery limits is \$175,000.00, and the total is \$1,494,000.00."

Q Yes, but I think you were getting back part of that, were you not, 60% of that was to be repaid by the Government, by the Dominion Government?

A Well, yes, but that is on the alkylate plant and that does not come back or have any effect on Royalite at all.

Q No, but having received that back I was wondering about that figure of \$1,215,276.00, but perhaps you cannot explain that?

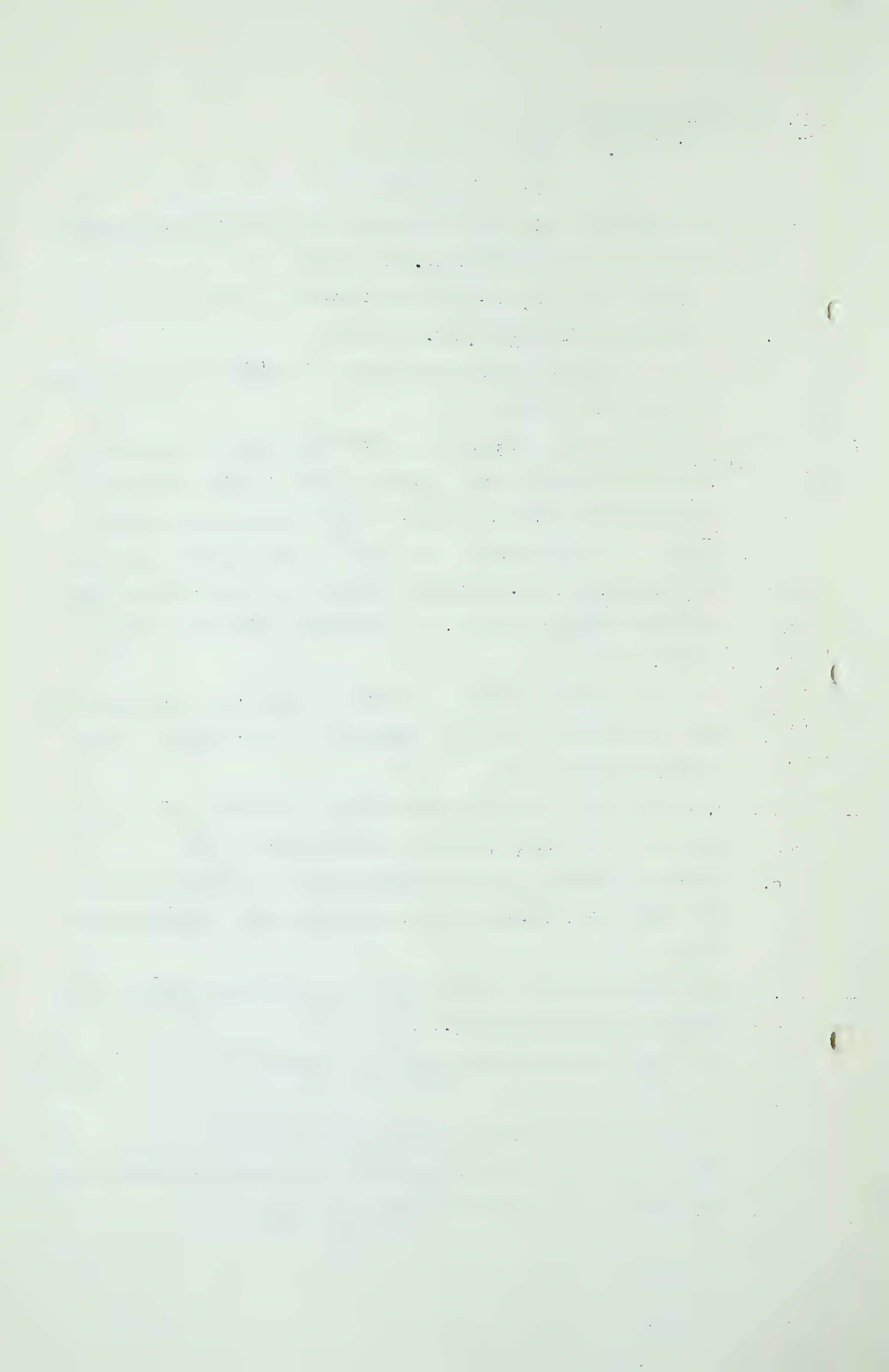
A No, I cannot explain that. I know nothing about the arrangements between the alkylate plant.....

Q You do not know how that figure is arrived at or what it covers?

A No.

Q Who can give information of that character?

A Well that would be a question, if it is considered relevant to this, that is a question for Imperial Oil.



M-3-1 - 11.30 A. M.

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Q Well who would be the person in Imperial Oil who could tell us ?

THE CHAIRMAN: Mr. Moore.

A I doubt whether Mr. Moore would know, sir.

Q MR. BLANCHARD: Well perhaps we can find that out. Do you know whether there was more or less than seven million imperial gallons supplied ?

A I could not say, sir. I have no knowledge of the alkylate plant, other than the raw feed and what its requirements were and what were supplied.

THE CHAIRMAN: Could you say they supplied seven million ?

A I can only answer it this way, I know we supplied all they could take at all times.

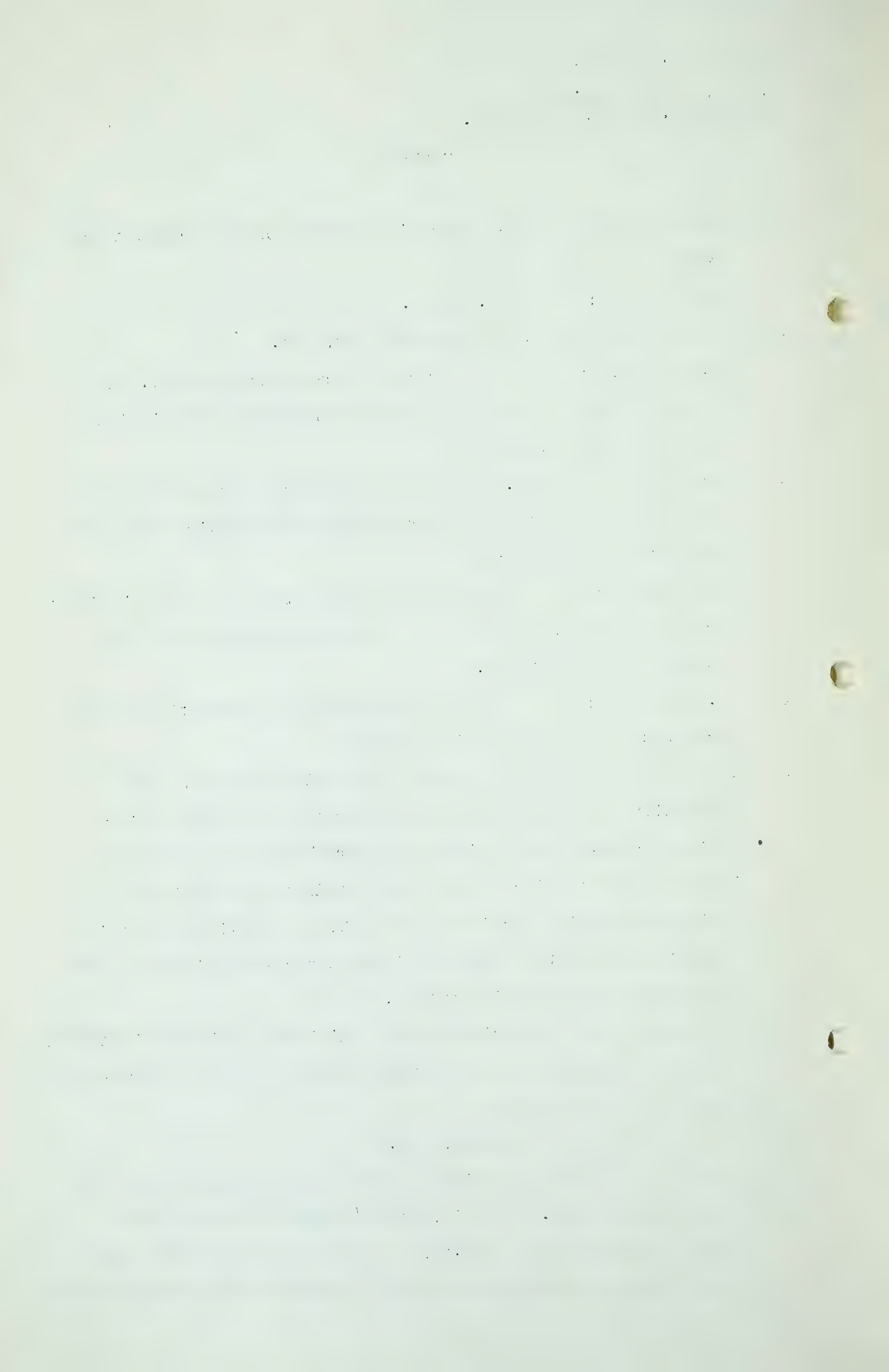
Q MR. BLANCHARD: Was the capacity of the absorption plant increased to furnish the iso-butane ?

A That probably depends upon what you call increased. The absorption plants were not extracting the iso-butane prior to the alkylate plant going into operation and we had to increase the oil circulation and install this additional equipment that is described on Page 2, as auxiliary plant in order to be able to handle the increased circulation and make the extraction of the iso-butane.

Q The absorption plant prior to the additional equipment installed there to extract iso-butane would already handle the amount of gas as it stands today ?

A As the quantity of gas goes, yes.

Q What I have in mind is this and probably your explanation is fully satisfactory. That is, that these plants had been purposely built at a capacity, a large capacity, much larger than otherwise purely to meet peak loads of the Calgary system ?



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A That is right. They were built for a certain volume of capacity and the specification of the product they extract has changed from time to time and this in effect is just another change in the specification of the product which did need certain additional equipment.

Q What I was really directing my question to was this as to whether this depreciation allowance mentioned in Schedule "B", whether any part of that came back to Royelite and should be credited against the historical cost, the normal historical cost of the construction of 1942 - 1943 ?

A I think I am correct in saying definitely no sir. But one other point I should mention that you have read the contract and you will see it. There is an arbitration clause Page 13, Clause 22, that this contract has not been completely concluded yet. The arbitration is taking place at the present time and all such matters as the one you have mentioned of course are taken into account.

Q And you can definitely and categorically correctly state that at no point was that depreciation to be credited to the historical cost for construction of work and property now owned by Madison or operated by ?

A Oh property owned by Madison. Yes sir. Definitely. I can definitely say that no portion of that comes back, of the depreciation for the property owned by Madison. You see....

Q When was this arbitration completed ?

A Completed ?

Q Yes.

A No. I say it is not completed. It is now under way.

MR. CHAMBERS: It is not even started.

Q MR. BLANCHARD: Was there an allocation and return of

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monies from the Dominion made at some time or another.

A The sixty percent mentioned with regard to the equipment installed in the gasoline plants was paid to Royalite.

Q That was paid ?

A And that is still open to final settlement under Clause 22, arbitration.

Q Now did part of this 19.03 cents that is mentioned in Schedule "B", did part of that come back to Royalite ?

A No sir.

Q For feed stock ?

A No sir. There was an established price for iso-butane.

Q There was an established price and that was paid by Imperial to Royalite. Is that the way ?

A Yes, and also to the G. & O. P. and B. A.

Q How was that price established ?

A Well to be quite frank, I do not remember in the end, and I did take part in the working out of the price.

Q What was the price ?

A It was, I think it was this way sir if I remember right. The going price in this area at that time for the twenty-six pound vapor pressure product we were making at that time was the basis and I would not be certain of this but I believe it is correct, the price of bringing iso-butane into this area was the other element and there was a scale constructed and each tank load was analysed and the price computed from the analysis using this scale.

Q And were profits realized by Royalite from the sale of iso-butane sufficient to defray all these costs, the \$311,000.00 mentioned in Clause 4 ?

A Well actually of course Royalite spent a lot more than the

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\$311,000.00 mentioned here.

Q Well whatever it did spend ?

A Well that is what has been asked for at the present time. As you know the books were not kept in the way that the profits from the sale of iso-butane were kept against the cost of operating the gasoline plant solely. That is what the figures we are now working out.

Q In connection with your absorption plant situation ?

A Yes, and submission is being prepared to be entered at that time.

Q Now then as you have mentioned, the normal cost incurred under these installations in 1943 particularly resulted in a very much higher historical cost than reproduction cost ?

A That is correct.

Q All these installations and that one might say would very largely offset the lower historical cost in earlier years as compared with reproduction costs of earlier years ?

A Yes, it would have that effect, Mr. Blanchard. Of course bearing in mind that while the appraisal was made in 1943, the appraisal decided to disregard the fact that a lot of this work was done at that time and might possibly therefore fairly carry the higher cost as reproduction cost of that year.

Q I understood you to say that the historical cost was double the reproduction ?

A On certain items. I never made that as a general sweeping statement to cover all the installations, oh no, that would not be true, sir. For example the cost of installing compressors and things like that where there was no fabrication required, they were not double.

Q Were you present at the conferences between Mr. Hamilton and

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Mr. Kirkpatrick relating to the dollar items in your historical costs ?

A I was present on certain occasions and so far as I remember only on one occasion was that particular matter discussed.

Q Do you recollect that at that time it was agreed that these hidden costs, that is that could not be traced in your books, that they were offset by certain higher values that did appear in your books ?

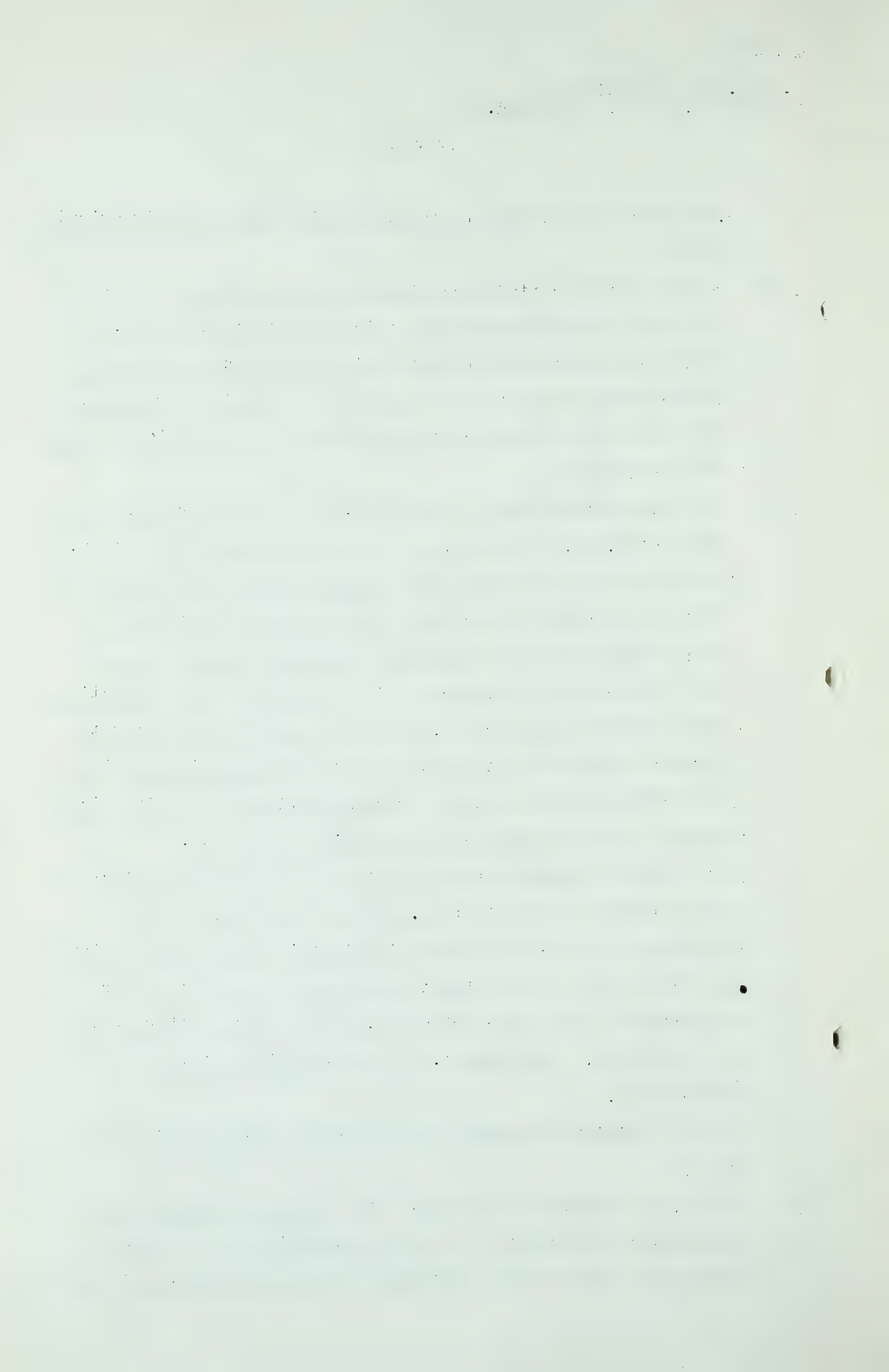
A Well my understanding of that and Mr. Hamilton diverges somewhat I think, Mr. Blanchard. It was my understanding that Mr. Kirkpatrick did recognize there might be some other class of item in the opposite direction and for the purpose that he then thought that the historical costs were being examined that is to act as a yardstick to judge whether the reproduction costs were reasonable or not, he did consider that one might be said to offset the other but he had no thought in his mind as I understand it then that a recommendation to use historical in place of reproduction costs was going to be made.

Q If it was not accurate it would not be a very good yardstick ?

A Well that to an extent is true, I will grant you, but in default of any better yardstick it might in some people's mind be of value and I would like to point out it was not at our suggestion that it was carried out. We are not setting it up as a yardstick. Far from it. We are pointing out the difficulties.

Q Did the Dominion Government pay the costs of the return fuel line ?

A No sir, the Royalite paid that. The Allied War Corporation undertook to underwrite it but the period that that underwriting was for and the eventuality that was covered, has now



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passed and that contract is no longer - it is null and void and Royalite has paid the whole cost.

Q And were not reimbursed at all by the Government ?

A No sir.

Q The Government did pay part of the cost of the removal of No. 2 plant to No. 1, did it not ?

A No sir.

Q No part of it ?

A No sir. That is part of the excluded items in here.

Q And no part was paid by the Dominion Government ?

A I am sorry sir. Wait a moment. I think I am wrong there. Yes sir they did pay a part on the agreement here and subject to the condition that the over-expenditure above what had been agreed was absorbed by Royalite

Q So that apart from this contract or as part of this contract I mean, was the payment made by the Dominion Government ?

A No. It is included here in Clause 4 auxiliary plant.

Q It is no part of the excluded cost. Is that what you say ?

A That is right sir.

Q Are you sure of that ?

THE CHAIRMAN: I do not think the witness heard your question.

MR. BLANCHARD: I beg your pardon.

Q Are you sure of that, that it is no part of the excluded items ?

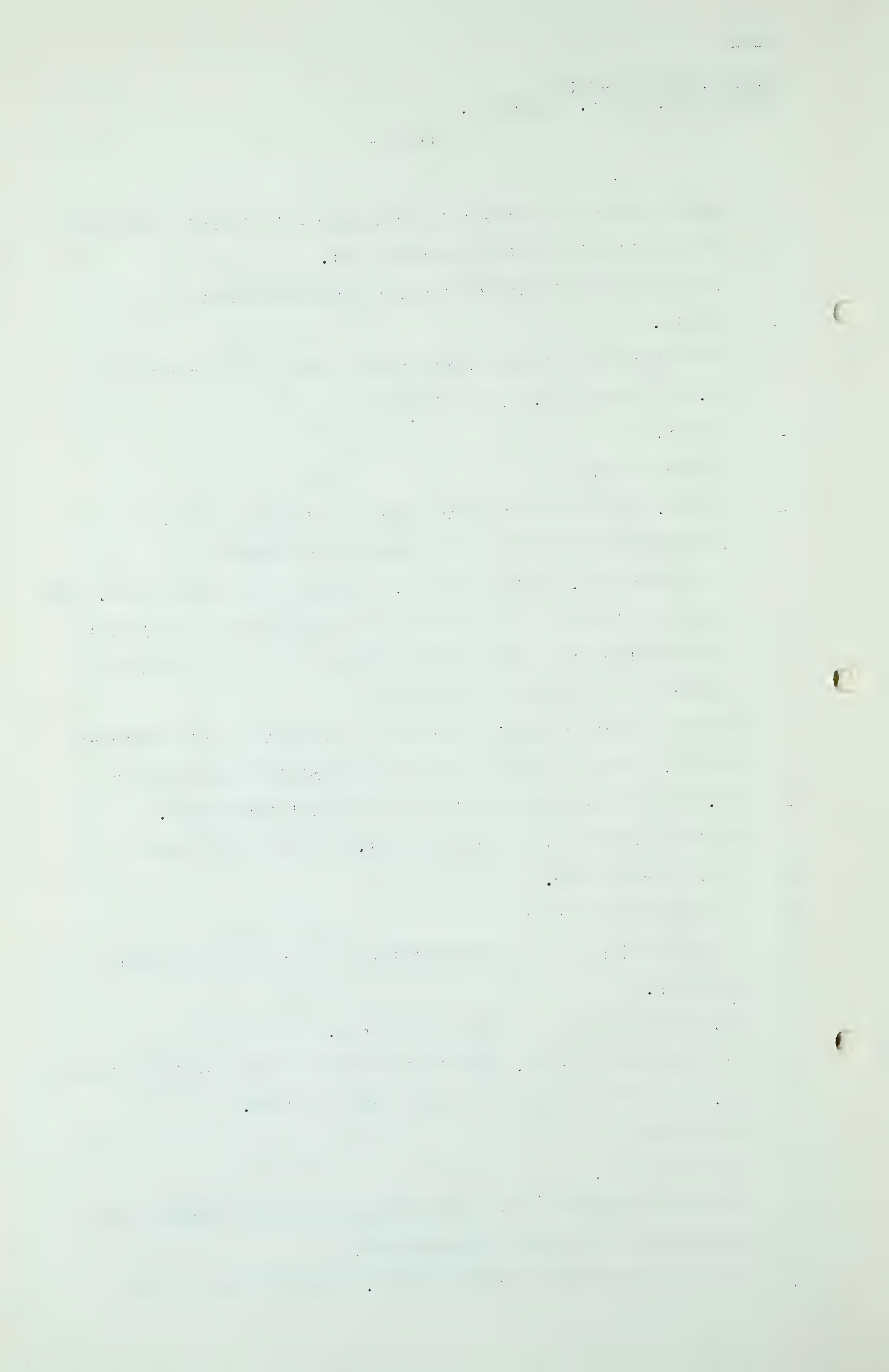
A No, I say it is no part of the excluded items.

Q It is not ?

A That is right.

Q You were speaking of the Weymouth plan and you yourself were engaged in some of the conferences ?

A I was at the first meeting when Mr. Weymouth came out the



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first time.

Q And finally there was a schedule, at least it is a schedule to the Weymouth report, involving a scheme for complete conservation which carried the conservation further than the project "A" ?

A That is right. I think the Weymouth report called for something like ninety-two or ninety-three percent conservation, and the project "A" as carried out affected some seventy odd percent.

Q Now to what extent did Royalite agree as to the distribution of the costs of the scheme as recommended by Mr. Weymouth. That is the Gas Company was to provide so much of the capital and operating costs and Royalite so much of the capital and operating costs and the producers so much ?

A Well I have been informed that the figures given by Mr. Weymouth in his report are not agreed to by Royalite and did not come from Royalite officials.

Q And were they discussed by Royalite, do you know as far as you know ?

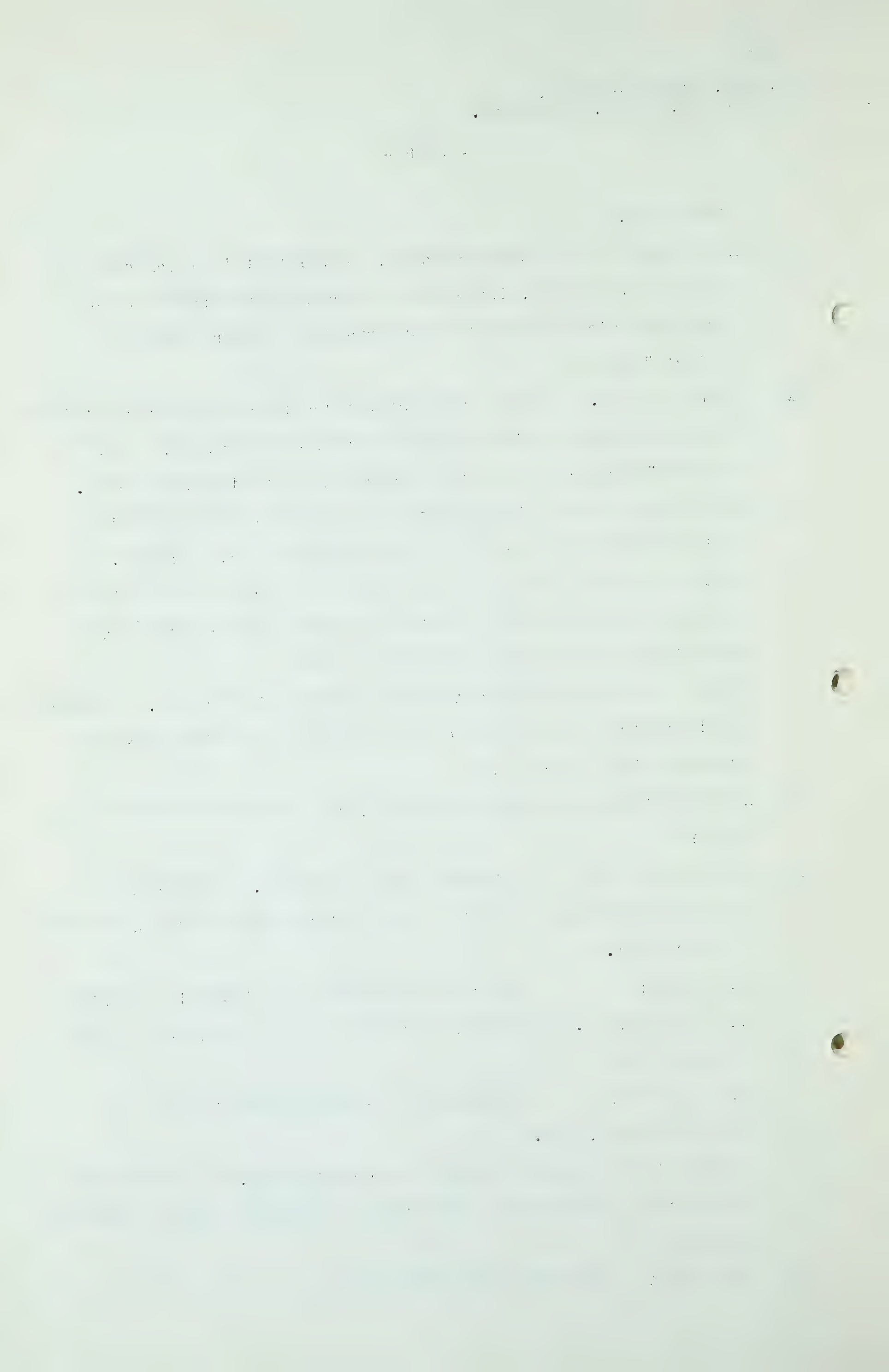
A So far as I know, the discussions in which Mr. Weymouth was engaged went on for several weeks and into months both up here and down east.

MR. HARVIE: You are referring to the figure in Exhibit 31, Table 15, Mr. Blanchard, so that we will know what we are talking about ?

MR. BLANCHARD: It appears in several places in the Weymouth report, yes.

Q And Royalite refused to agree to a contribution. The Royalite refused to agree to the contribution suggested in the Weymouth plan ?

A From whom ? Contributions from whom ?



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Q The contributions to the carrying out of the plan, the capital costs and also distribution of operating costs of the plan ?

A Well to the best of my knowledge and belief the Royalite did not agree with Mr. Weymouth's scheme and as far as I know nobody else actually offered to make those contributions.

Q Well at that time or when at any time this conservation scheme was being discussed was the question of increasing the seven and three-quarter cents, the price of the gas to the Gas Company, discussed ?

A I don't know that sir.

Q You cannot say ?

A No, it was not up at this end any time I sat in.

Q Were any calculations made by Royalite to ascertain at what price they would have to - that is what price they would have to demand for gas delivered to the Gas Company in the event of this conservation being carried out in the Weymouth scheme ?

A My understanding is that the Weymouth scheme was predicated on keeping the same prices and the Royalite's answer to that was it could not be done at those prices.

Q It could not be done ?

A That is my understanding.

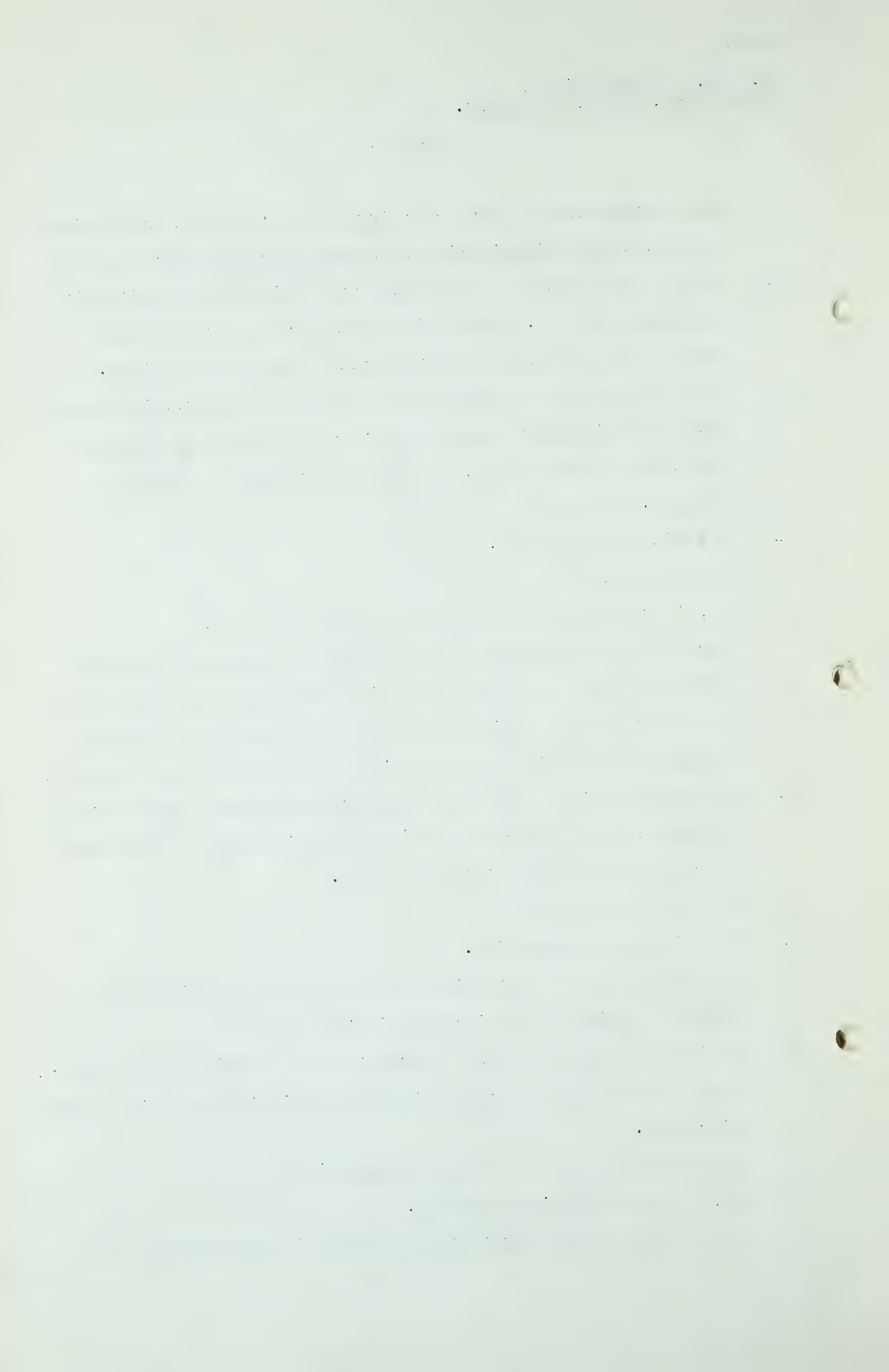
Q And there was no negotiation so far as you know with the Gas Company looking to the increase in that price ?

A Well the Gas Company were a party to those Hearings down there. I was not there and I cannot tell you whether it was or was not discussed.

Q Then you do not know of those discussions ?

A No, I have no direct knowledge.

Q Do you know of any negotiations whether in connection with the



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Weymouth scheme or otherwise, looking to the increase of the
seven and three quarter cent price ?

A Yes, I have heard.

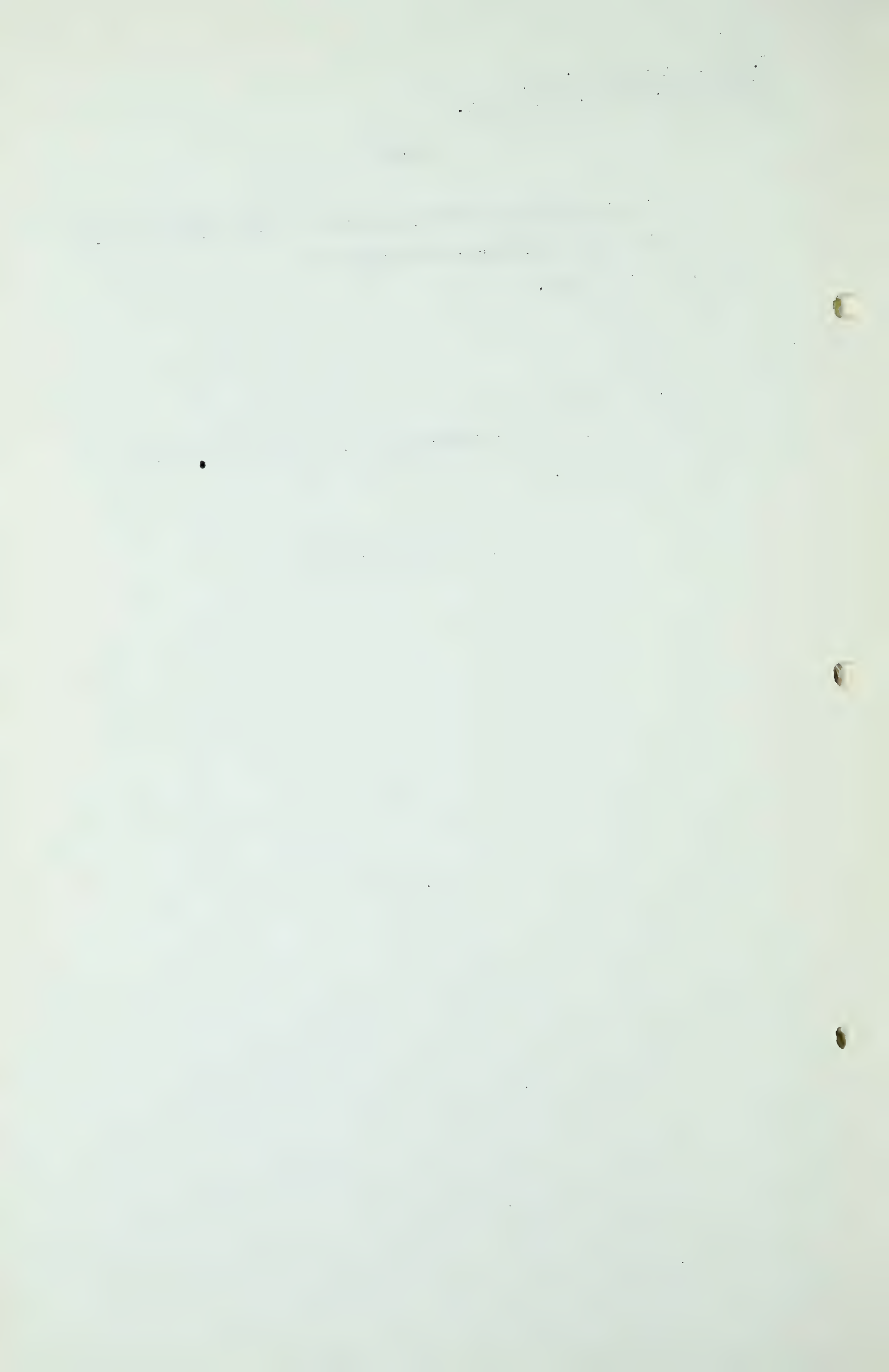
Q Since 1940 ?

A Since 1940.

Q Or 1939, I should say ?

A Not since 1939, but I think there were some possibly in the
year 1939 or 1938.

(Go to Page 5701)



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Q And was that representation made by Royalite to the Gas Company that the price should be increased?

A I think verbal discussions might have been carried on, sir. I was not a party to any of them.

Q At that time do you know whether there were figures prepared breaking down the cost of the delivery of gas to the Gas Company?

A No, I have never seen such a statement. There might have been some made but I have not seen them myself.

Q You do not know whether they exist or did exist?

A No, I do not.

Q Do you know who would know?

A Well I have not been able to find anybody who knows. That point has been raised before, as you know, and I have made inquiries but I have not been able to find anybody who does know, or who made them.

Q You do not recollect what the new price or the proposed new price was?

A I was not a party to the discussion. As far as I know they were all verbal, sir.

Q That is all, thank you.

THE CHAIRMAN: Any re-examination, Mr. Chambers?

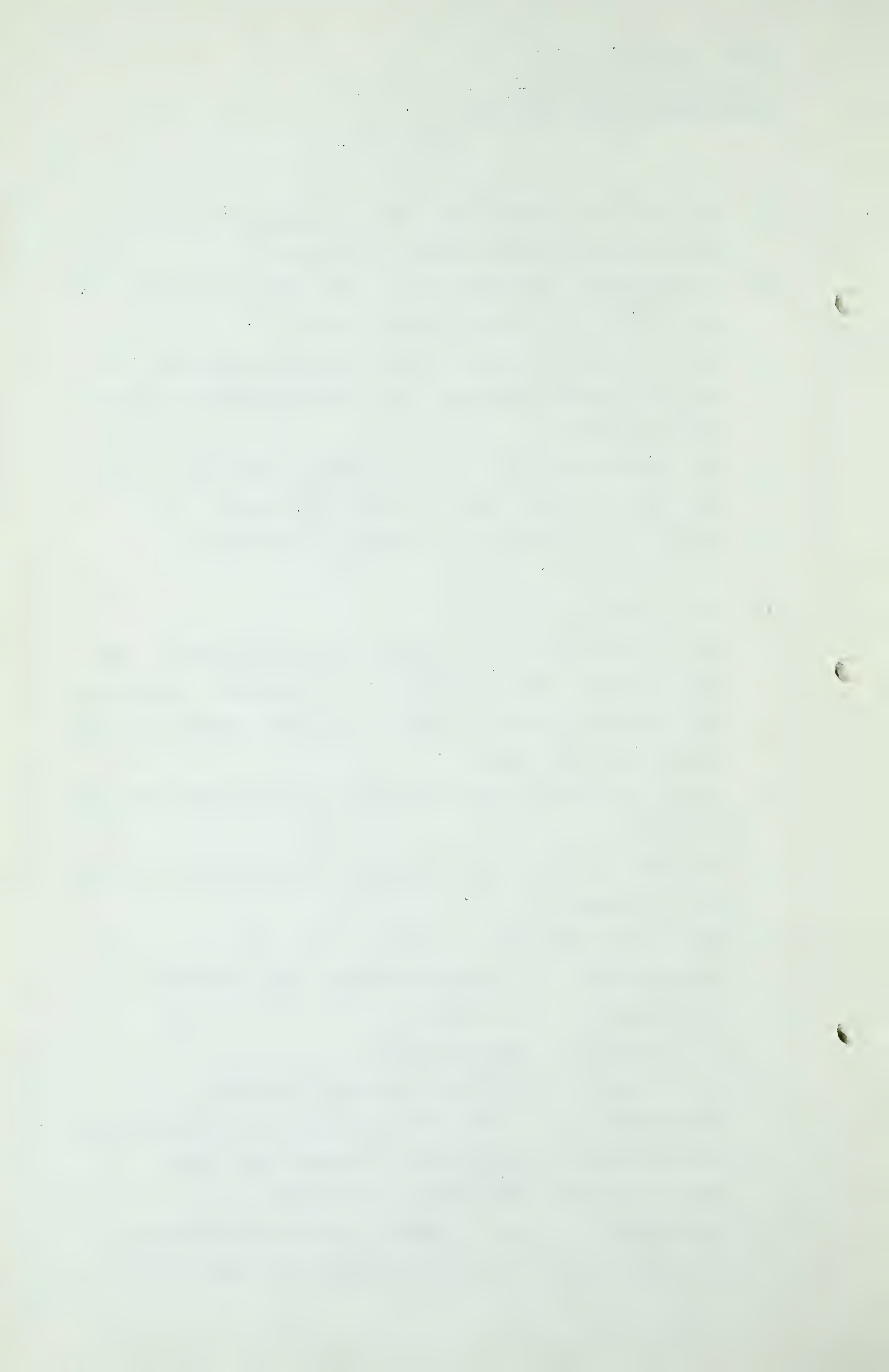
MR. CHAMBERS: No, sir.

THE CHAIRMAN: Mr. McDonald.

MR. McDONALD: No sir, I have not anything.

THE CHAIRMAN: Thank you very much, Mr. Stevens-Guille. Now, Mr. Chambers, do you wish to resume your cross-examination of Mr. Hamilton on this point?

MR. CHAMBERS: No, I meant to give a breakdown and I have a statement here which was shown to Mr. Hamilton of



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this Project A. Now it may be that Mr. Hamilton might want to go in the box and give some evidence in that connection. I do not know that there would be much profit in my cross-examining him.

THE CHAIRMAN: You were cross-examining Mr. Hamilton with reference to this contract and I suggested to you then that I did not know what it was all about, and I did not. The cross-examination was adjourned and if you wish to resume it

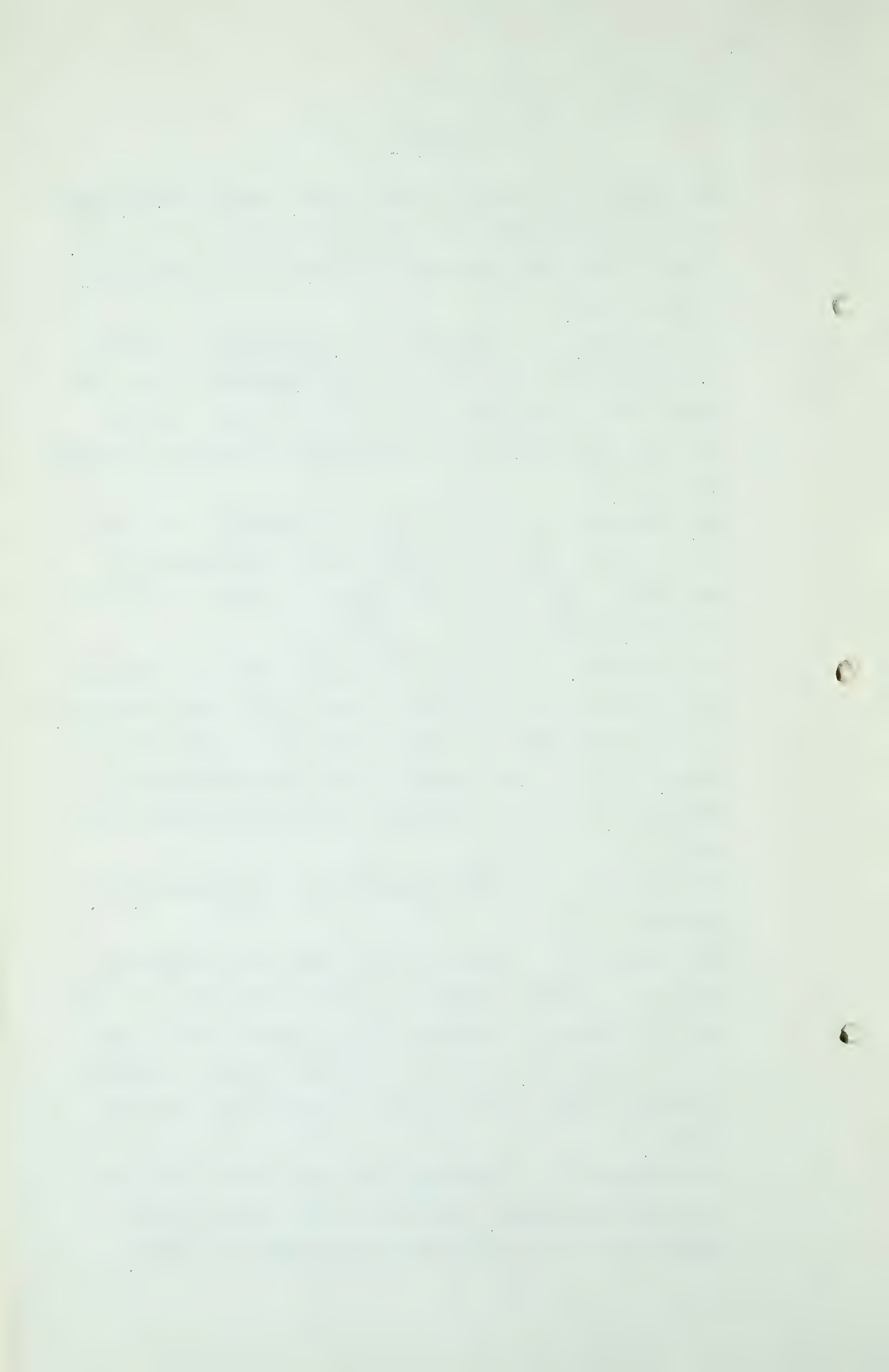
MR. CHAMBERS: No. On the interpretation of the contract, I think that is a matter that you, as Chairman of the Board, I will talk to you about. It does not make much difference what a witness says about it.

MR. BLANCHARD: We have not obtained all the information this morning that I had hoped to get from Mr. Stevens-Guille. I do not know whether it will influence the finding of the Board, but it is with respect to that 50% depreciation in Schedule B. I would like to get the information from somebody.

THE CHAIRMAN: Have you anyone who can give that, Mr. Chambers?

MR. CHAMBERS: I have not the least bit of knowledge about it. I think it must be an Imperial matter. I do not know of anybody in this part of the country who would know about it. Frankly, I do not think that I should be astute in trying to get somebody, because we have to put some end to this.

THE CHAIRMAN: Supposing there was a doubt in my mind as to what did happen. You are the only person or your clients are the only persons who can remove that doubt.



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MR. CHAMBERS: Royalite knows nothing about it. That is my instruction. I do not think, from what Mr. Stevens-Guille says, well I doubt if there is anybody else in any other organization knows anything about it.

MR. BLANCHARD: I suggest there should be some account of how this \$1,256,000.00 is made up and what it covers.

THE CHAIRMAN: I would think so.

MR. BLANCHARD: That is all I want to know. It is possible that Royalite is entitled to some part of that depreciation, that is the whole point.

THE CHAIRMAN: And there is a question of the return fuel line which I understood was not in the original appraisal because it has been completely amortized or paid for, is that not so, Mr. Hamilton?

MR. HAMILTON: No sir. It was left out because Royalite continued to operate it and it was not a utility matters.

THE CHAIRMAN: Is it now being included?

MR. HAMILTON: No, sir.

THE CHAIRMAN: We will perhaps have to do something with that later. In the meantime, I am going to adjourn till 2 o'clock.

MR. STEER: May we take another moment? My friend Mr. Fenerty and I are engaged in an Appeal which was set for Edmonton for the 17th or 18th of March.

THE CHAIRMAN: The 18th of March?

MR. STEER: Yes, and it looks to me as though the Board will sit the week of the 4th and the 11th and nothing can be said about the week of the 18th.

THE CHAIRMAN: Not yet.

MR. HARVIE: I have a statement, I do not know whether



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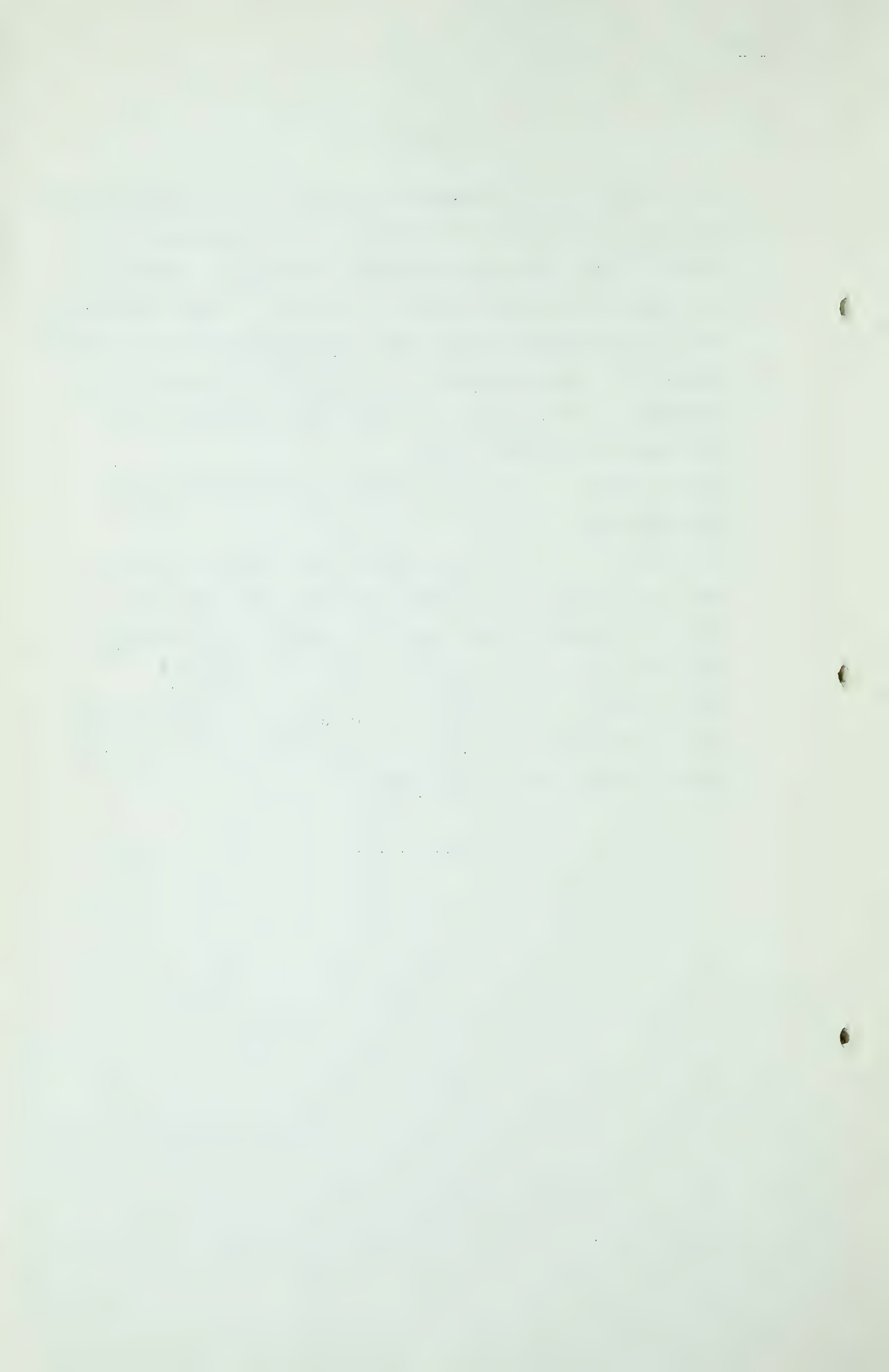
it would be of any assistance to put it in as evidence unless the Board might wish it and that is in connection with the effect of this contract on the B.A. operation. For what it is worth, I am informed that so far as any of these contracts are concerned they have not been included either in the figures given by Mr. Hamilton regarding our historical cost of our absorption operation nor have they been included in our appraisal of our other lines.

THE CHAIRMAN: So that you would not be affected in this Hearing?

MR. HARVIE: We will be very much affected in this way. Once we know what these costs are after this arbitration is completed they should be included and must be included or the Board must make some other figures.

THE CHAIRMAN: I think Mr. Blanchard is probably right that my successor will finish the Hearing. In the meantime we will adjourn until 2 o'clock.

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Donald L. Katz, (Recalled)
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2 P.M. SESSION.

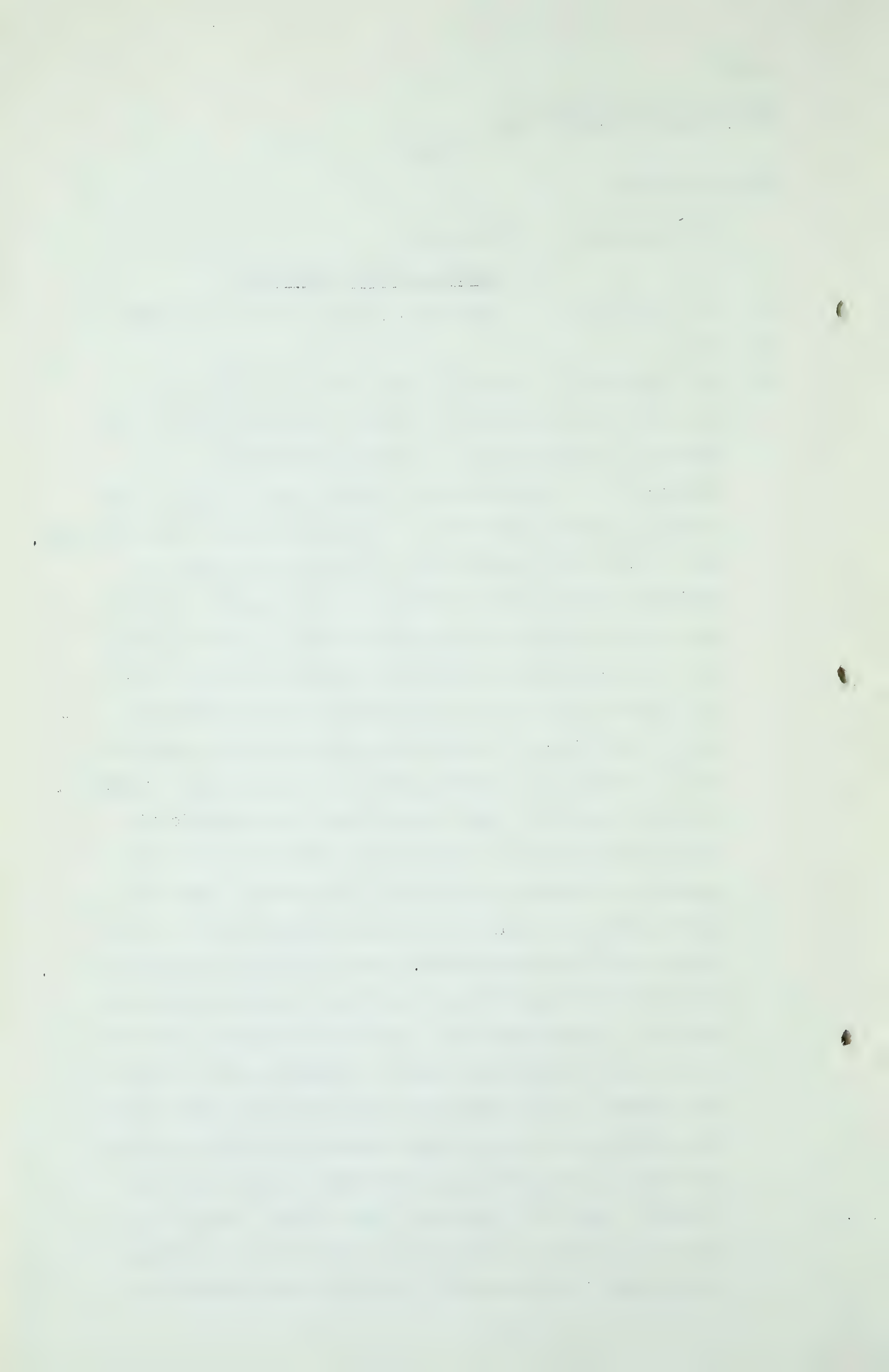
THE CHAIRMAN: Dr. Katz.

DONALD L. KATZ (Recalled)

Q THE CHAIRMAN: Dr. Katz, you are still under oath?

A Yes.

Q The position, Dr. Katz, is this, that you have been appointed as advisor to the Board. There are one or two technical matters on which I desire some advice. As Chairman of an Administrative Board, I am not quite clear as to the method under which I should get that advice from you. That is whether I should get it from you in private or whether I should get it from you in open court. Because there is a doubt as to the proper method, I have decided that whatever advice or whatever recommendations you give to me should be given in the presence of all interested parties and since I am adopting that method, all parties shall be entitled to cross-examine you on whatever recommendation you may make. Now as you know I invited all the interested parties to meet with you last night for the purpose of discussing and getting the factual detail of those matters on which I wish your recommendation. Those matters were discussed and you got the factual information that might be required to enable you to reach a decision and make a recommendation. Now the first matter was that of the market sharing position. The Madison Gas Company and British American Utilities filed with the Board what they considered to be a proper scheme for market sharing. There was a reasonably wide divergence between the two schemes. Then at a later date they filed, I think it is Exhibits 91 and 94, in which they revised their original submission. My examination of those revised schedules



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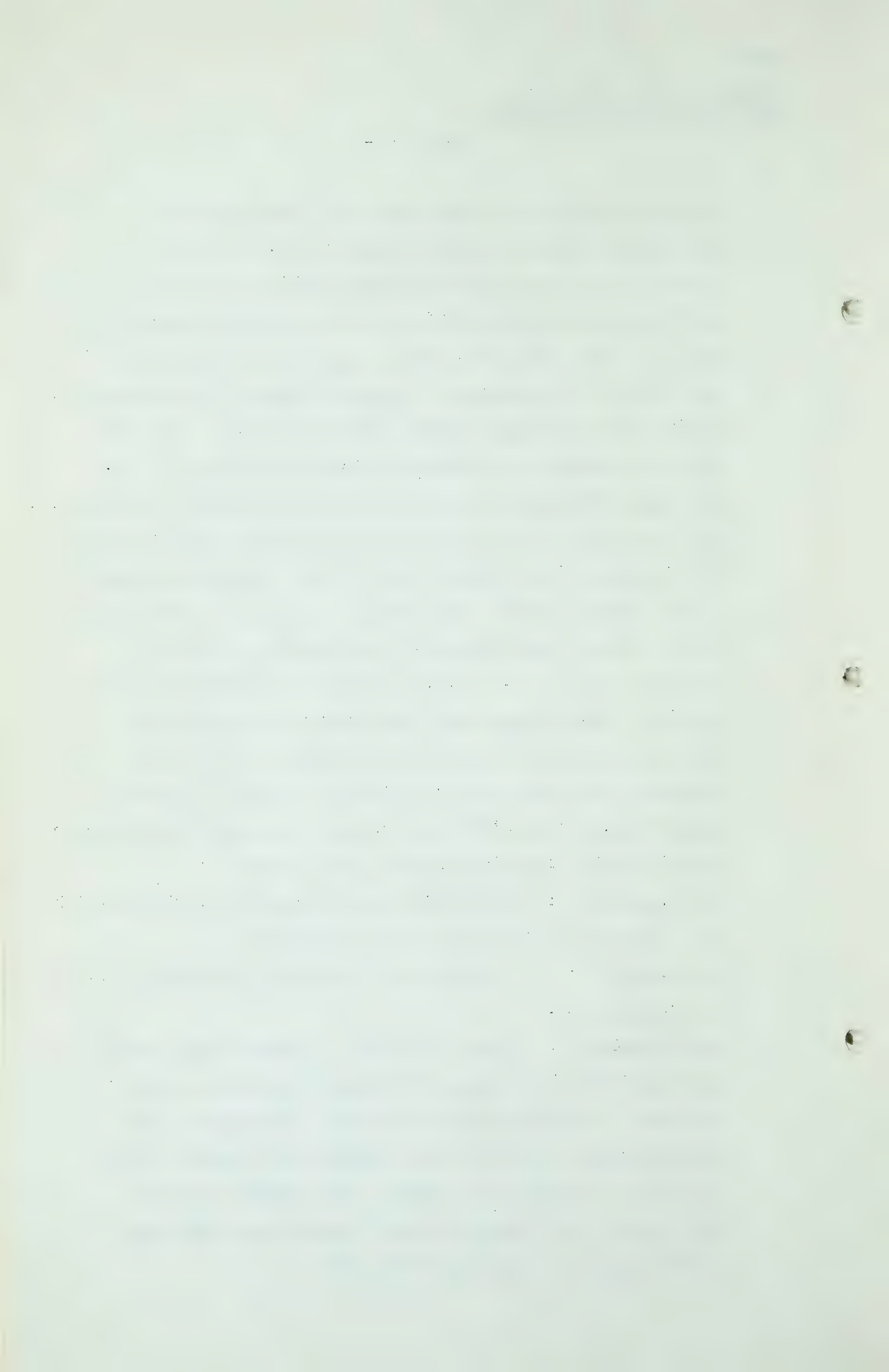
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leads me to think that there are only three essential differences between the two companies. One of those differences is how should the gas which is repressured in Bow Island be treated with respect to the market-sharing position. The other, how should gas which is flared at the outlet of the absorption plant be treated with respect to the market-sharing position and third, which I do not think is material and perhaps we need not discuss it, is the method of treating gas cap wells controlled by G. & O.P. The submissions of the two companies indicate that they are of the opinion that gas cap wells in the Royalite area and in the British American area should be treated on the basis of their Brown Plan Allowables, whereas the submission indicates that G. & O.P. wells should be treated as crude oil wells, which means that the market-sharing position would be related to the actual deliveries made by those wells and not by the Brown Allowables. Before we go any further, have I stated to Dr. Katz the essential differences between the two plans submitted to the Board?

MR. CHAMBERS: So far as I am concerned, sir, I think that outlines the situation very accurately.

MR. HARVIE: I think it is stating it very well,
Mr. Chairman.

THE CHAIRMAN: Then, Dr. Katz, I propose that we will deal first with the method of treating gas which is re-
peessured in the Bow Island field with reference to the market-sharing position of the Madison Gas Company. You heard the discussion last night. Now perhaps you will tell us what your idea is in that respect and what your recommendation to the Board would be?



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A This gas leaves the Turner Valley field and in that sense it is market gas insofar as the sharing of the producers is concerned. This gas is in a position comparable to stored gas currently purchased by the Royalite Company which is paid for at the rate corresponding to the present worth of the gas based on a fixed well-head price for some future date. The utility companies *handling* the gas, I believe, should bear the expense of conserving this gas currently. Therefore the marketable gas that goes to Bow Island should be treated from the price standpoint similar to stored gas.

Q MR. HARVIE: What was that last statement again, should be treated for what purpose?

A From a price standpoint.

Q MR. BLANCHARD: Might I put a question, sir? Dr. Katz, in making that recommendation I do not know whether you are through with that aspect or not.

A Yes, sir.

Q But assuming that Royalite has no interest in the gas that is to be stored in Bow Island from this time on; assuming the Gas Company buys the gas stored in Bow Island at a discounted price, that is the well-head price having been fixed will buy it now and become the owner of it at a price, the well-head price discounted over so many years at such and such percent. Under those circumstances would you say that that gas should be treated as part of the market or not?

A I believe it should be, on the basis that the control of production at Turner Valley which will control the gas stored in Turner Valley may not be applied to this gas that goes to Bow Island and the Company

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Q It is subject to being used as the Gas Company desires to use it?

A Sees fit, that is right.

Q MR. STEER: I did not get that last answer.

A It is subject to being used as the Gas Company sees fit.

Q MR. CHAMBERS: Except that it should not be used to compete with gas currently available to the market from Turner Valley.

MR. BLANCHARD: Well I assume it is to be used for peak load purposes?

MR. CHAMBERS: Oh yes.

MR. BLANCHARD: Peak load purposes when required.

Q MR. STEER: I have one question if Dr. Katz has finished. Assume that the cost of storage to be borne by the producer, that is of the gas that is stored in Turner Valley, then on the same principle the cost of the storage ought to be borne by the producer with respect to this gas that is stored in Bow Island?

A Yes, although I am not certain as to the same extent but it should be borne likewise.

Q MR. BLANCHARD: In view of the perhaps present uncertainty for a moment of the situation with regard to the Gas Company purchasing, would you like to give that any further consideration? If not

A No. I understood Mr. Steer's question to say if, at the beginning, is that right, Mr. Steer?

Q MR. STEER: That is right and by cost of storing I mean the cost of handling that gas, gathering it and getting it into the ground?

A Yes, sir.

Q That is what you understood?

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A Yes, sir.

Q THE CHAIRMAN: That of course will come up as a separate subject on which I want some direction. But at the moment all I am interested in is this, shall the gas stored in Bow Island be deducted from the Madison sharing position or shall it not? That is your submission, Mr. Stevens-Guille, that it should not be deducted. The B. A. said it should be deducted.

MR. STEVENS-GUILLE: No, sir, I do not think that quite clearly expresses it. We say it is not part of the market and we treat it as stored gas in Turner Valley whereas the B.A. submission says it should be treated as part of the market in which everybody shares.

THE CHAIRMAN: That is right.

MR. STEVENS-GUILLE: I think I misled people last night about that at first.

THE CHAIRMAN: Your recommendation is simply that it should be treated as is the other stored gas?

MR. CHAMBERS: Oh no.

THE WITNESS: Should be treated as the market.

Q THE CHAIRMAN: As the market?

A Yes, relative to the sharing by the producers.

Q MR. CHAMBERS: That is provided it is bought by the Gas Company, is that right?

A Well I feel that it would be probably better anyway.

Q The thought I had in mind, Dr. Katz, is, it is bought by the Gas Company and it is taken by the distributor and it is out of the control of the Turner Valley picture and the Gas Company is under another Board? Now a situation might conceivably arise that it is bought and stored in Turner

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Valley in circumstances that a Turner Valley operator might be interested in and I suggest to you that those are two situations that might result in different conclusions on that point.

Yes, I understand that it might result in different conclusions but I think it is more probable that you would come to the same conclusion anyway.

THE CHAIRMAN: Have you anything to add, Mr. Harvie ?

MR. HARVIE: Nothing further.

THE CHAIRMAN: Mr. McDonald ?

MR. McDONALD: No, all my points have been cleared up.

MR. CHAMBERS: Probably I should say this so there may be no misunderstanding, when I am referring to that existing contract between the Gas Company and Royalite or the contract which did exist, under the terms of which Royalite had a part interest in the gas in Turner Valley or rather in Bow Island, that was stored there prior to 1944 and there was a ceiling on the price that Royalite could get out of it and the time when it would be produced was in the absolute control of the Gas Company, now what I am suggesting, Dr. Katz is this, that if the Royalite Company still continued under such a contract as that, that the discount period would depend upon something over which Royalite had no control, and what I am drawing your attention to particularly is this, as I understand, you recommend that that price be discounted on exactly the same basis as the Turner Valley basis; now I am suggesting that if Royalite is in under those arrangements there should be a different discount period ?

A I think I said a moment ago that although it would be considered in a similar manner, there might be some difference

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and the difference might be the time of discount.

MR. CHAMBERS: Yes, I understand.

THE CHAIRMAN: Anything further ?

MR. FENERTY: Nothing further.

Q THE CHAIRMAN: Now the other point, Dr. Katz, is "flared gas at the outlet of the absorption plant , and what place does that have or what place does it not have in the market sharing position of the various interested parties"?

A I have a brief summary of the market, the method of determining the market sharing position which I will give in advance to discussing flared gas in detail.

First: the marketable gas will be metered residue gas delivered from the G. & O. P. plant to the line of the Madison Company minus a scrubbing loss.

Second: the marketable gas will be the Brown allowable on the gas cap wells, plus wet gas delivered to the absorption plant of the British American and the Royalite Companies from crude oil wells providing you made the following deductions:

Extraction loss on the gas;

Actual blow-down line losses fuel on the gas cap wells.

Q MR. HARVIE: Excuse me, Dr. Katz, to make it easier for us to follow, are you following any of the present submissions to this Board ?

A No.

Q You are not following any of that at the moment ?

A No.

Q You have not followed either the Royalite or the B. A. submission ?

A I am sorry, I did not.

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Q It is all right, but I just wanted to know.

A Lease and drilling fuel;

Engine and plant fuel;

Scrubbing loss and residue gas flared.

This means that the flared gas does not have a part in the market and the reason that I have outlined why I believe the flared gas should not be in the market is as follows:

Marketable gas is that gas which may be made available currently or in the future to the market with the facilities which are installed, which facilities are normally as recommended by the operators and maybe by the Board.

The gas flared at a well does not share in the market.

And the gas flared at plants should not share in the market ^{since} either it would not have been flared under prudent operation because the equipment is not satisfactory for caring for the gas or the Company and the Board does not consider it to be in the public interest to install enough equipment to prevent it being flared.

For those reasons I believe there is no gas which will be flared that was not contemplated unless it was said to be emergency or imprudent operation.

THE CHAIRMAN: Mr. Fenerty, any questions ?

MR. FENERTY: No questions.

THE CHAIRMAN: Mr. McDonald ?

MR. McDONALD: No.

THE CHAIRMAN: Mr. Harvie ?

Q MR. HARVIE: You used the term unless "emergency or imprudent operation", now in the case of an emergency, do you think it would be proper for those who have possibly no

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control or are operating according to the rules of the game, to do that ?

A No, I feel that the situation should be arranged so that the emergency or the flaring that might take place is reduced to a minimum by some other procedure and one of the procedures of course is to penalize people for flaring.

Q That would be imprudent operation of course, but I gather an emergency operation is something that occurs in an emergency and cannot be foreseen ?

A I presume the emergency operations would be small enough to be negligible in the overall picture.

Q And in principle you would say in emergencies that interpretation should not apply ?

A Well maybe in principle in an emergency operation.

Q MR. CHAMBERS: And the same applies to the well owner himself, as I understand the well owner who through some accident or unforeseen situation has to flare his gas, he does not get any market, is that your understanding ?

A That is right.

Q THE CHAIRMAN: In other words flaring/^{which}may be ahead of the absorption plant or after the absorption plant is in exactly the same position ?

A That is right.

Q THE CHAIRMAN: The third matter and the one which may be of some importance and which is in the submission and therefore I think I should deal with it; Royalite say that their market sharing position so far as the gas cap wells are concerned should be based on their allowable; the British American say the same thing and then immediately they take up the cudgels for the G. O. P. and they say the G. O. P. wells, that is the

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G. O. P. gas wells, should be treated on the basis of their allowables rather than on their actual delivery. I do not know why the B. A. was so solicitous for the G. O. P. but since they have been I want to know what you have to say about it.

MR. HARVIE: I think I can explain that. It was for no particular reason but we do say and all our evidence was based on this, that there should be uniform treatment and that is the only reason we have taken up the cudgels as you say on behalf of that Company.

THE CHAIRMAN: Perhaps I did not put it quite fairly, Mr. Harvie.

WITNESS: The facilities installed to handle the gas coming from the G. & O. P. plant were not contemplated to be large enough for the first year or two to handle all of the gas. For that reason I believe it is better to consider the metered residue gas from their plant as their sharing position rather than to use the Brown allowable for their gas wells since it would then be necessary if you use the Brown allowables to decide whether all the Brown allowables or a portion of those Brown allowables were going to the market and it would be necessary to decide what portion of the gas was contemplated to go through the equipment which was installed, when you did not install enough equipment to handle all of it, and for that reason I believe that the Brown allowables should not be used at the G. & O. P. plant because it would be necessary to discount them because of the inadequate facilities.

THE CHAIRMAN: Any questions on that phase ?

MR. HARVIE: May I ask one question ?

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THE CHAIRMAN: Yes.

Q MR. HARVIE: I think you also suggested that it should be the metered residue gas which should be considered ?

A Yes.

Q Should that include the straight run gas, say from the G. & O. P. refinery ?

THE CHAIRMAN: What does that mean ?

MR. HARVIE: I do not know.

WITNESS: I understand what your question means.

Q MR. HARVIE: Dr. Katz can perhaps explain it far better than I can, my point is that I have been informed that possibly the metered gas from the G. & O. P. includes the straight run gas which was not the case in connection with the other metered gasses ?

A In refining their crude petroleum ?

Q Yes.

A I understand they have a small amount of refinery gas which goes to the same absorption plant as the natural gasses go and therefore the residue from their absorption plant would contain a small amount of refinery gasses which refinery gasses of course accompany the residue which they market. However since they are currently flaring, as I understand it, an amount considerably in excess of the gas coming from the refinery it would seem that they should receive a market share in accord with the residue gas which they are delivering.

Q THE CHAIRMAN: And that metered gas would include it ?

A It might include two types of gas, I understand it is straight run gas from the straight run topping refinery unit, which would be similar in nature to natural gas and could not be detected.

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THE CHAIRMAN: Now those are the questions I had for Dr. Katz on the market sharing position. Is there anything else arising out of that which anyone wishes to discuss with Dr. Katz?

Then we will go to the more difficult question of "repressured gas" or possibly the proper term is "stored gas".

MR. HARVIE: I wonder again, Mr. Chairman, if I might revert back to the other subject for a moment?

THE CHAIRMAN: Yes.

MR. HARVIE: I find it rather difficult to follow all this so quickly.

2 MR. HARVIE: And I think maybe last night I was possibly under a wrong impression and certainly gave a wrong impression in the discussion and I would like to just clear that one point up. I think last night, and I think it is in our submission and is what we have been doing as a practice and I do not know that we need to change it but I do want the record clear for the sake of uniformity, that we all be treated alike as far as possible and I would just like to ask Dr. Katz with that in mind, as I understand the Madison submission, the gas cap gas which is not being currently produced is given each month in their market sharing position one-twelfth of their annual allowance for that gas, whereas with us, so far as the B. A. is concerned, we have been treating it as produced on an annual basis; now that is I think the practice which we have been adopting and I am just asking Dr. Katz if he sees any objection to the B. A. being treated exactly the same as the Madison gas cap, by taking one-twelfth of the gas cap each month, regardless of how it is produced.

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THE CHAIRMAN: I suppose that is actually a Conservation Board's problem and not mine ?

MR. HARVIE: Yes, and perhaps Dr. Katz might prefer to leave it at that but inasmuch as we had discussed that feature I thought I would like to ask him that question.

A I might say this, that in my description of the market sharing position I put the two plants in the same category.

Q I thought you had but I was not sure.

A That is right.

Q THE CHAIRMAN: Now we have the question of "stored gas". We have gas produced in Turner Valley in excess of the market demand and the Royalite Company, instead of producing its gas cap wells, purchases the difference between its allowable and actual delivery from the crude oil producers and they deliver that gas to the Royalite out of the excess which they have produced over their market sharing position; even then there is gas left over, and that gas is pumped back into the ground. The question which has agitated the Hearing right from the beginning and will agitate the Hearing is: who should pay for the gathering and the compression, to put it back down into the ground and I am going to ask you to assume for the moment, because it is not entirely clear although I hope it will be clear before very long, I am going to ask you to assume that the Royalite is going to purchase that gas at the well head price discounted over a number of years, that is merely an assumption because it is not yet clear, although Royalite have made an offer somewhat along those lines; but that is not the immediate problem; who should pay for the gathering and the compression of that gas which is stored by Royalite in the Royalite gas cap and then we will come to the south

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end position later; Mr. Chambers, have I stated your problem correctly ?

MR. CHAMBERS: I think that is quite correct.

WITNESS: I feel that the current operating expenses resulting from gas returned to the reservoir as stored gas should be included in the operating expenses of the utility furnishing the gas to market, and the prime reason is that the equipment which provides the gas for peak loads is used on off periods to put the gas back into the ground.

(Go to Page 5719)

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From the 1st of Jan. to the 31st of Dec. 1861

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Secondly, I see, or I saw last night for the first time that it is practically impossible to compute the cost and then write it off over a period of years, both because of the difficulty of computation and second because of the price that it might indicate for that gas if it is impressed over a long period of time. I understand the facilities and I made enquiries, for example the facilities at the British American plant and I believe the facilities at the Madison plant peak load per day for market are primarily used for peak load whereas during the summer those same facilities are used for putting the gas back into the ground.

THE CHAIRMAN: And the net result of that, Dr. Katz, is that the consumer of gas, the ultimate market, will have to pay the current cost of gathering and storing the gas which goes back down into the ground ?

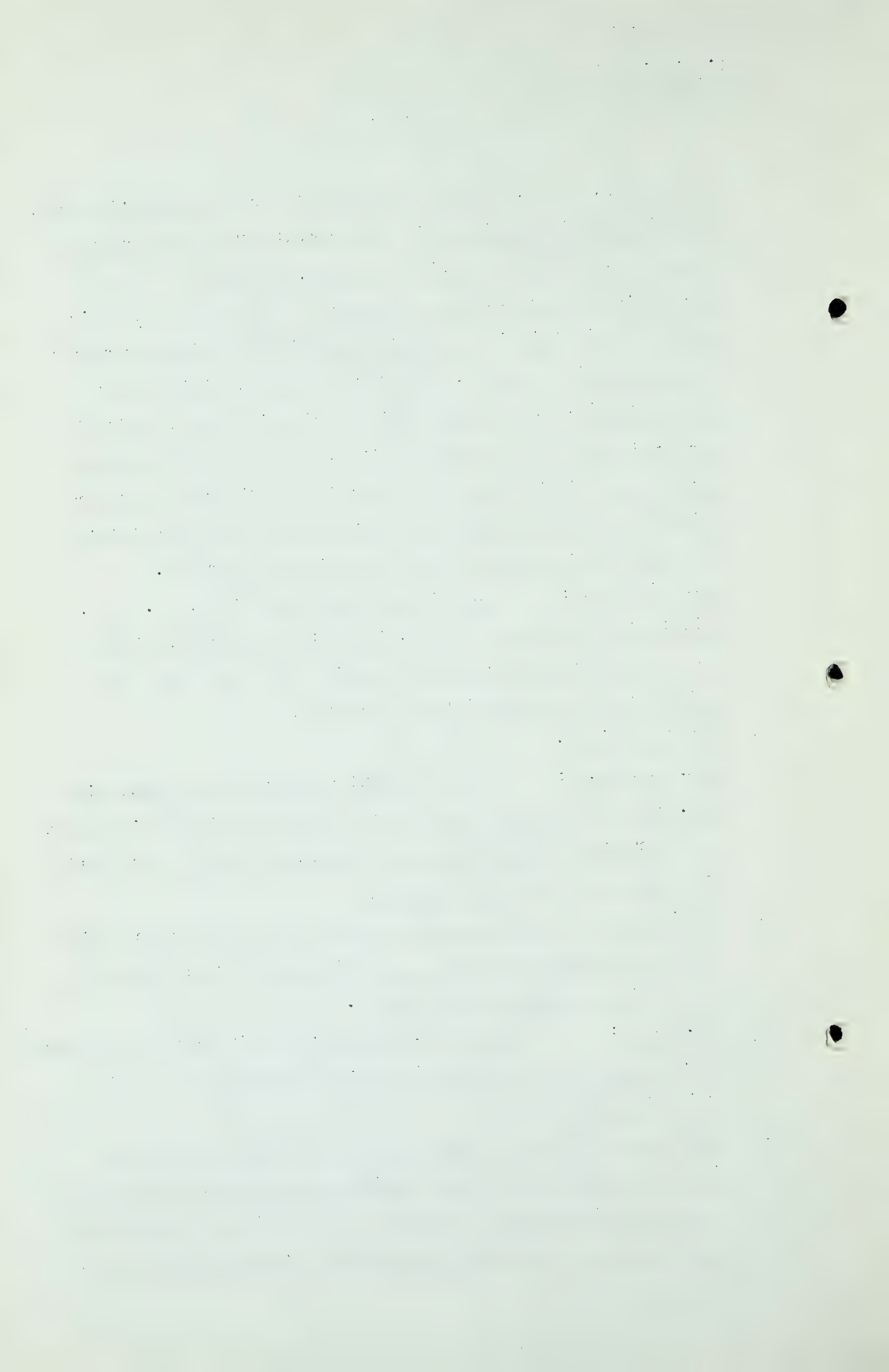
A That is right.

Q MR. BLANCHARD: Is your opinion based on the assumption Dr. Katz that the gas purchased by Royalite will be impressed as a trust for the Gas Company's consumers who are presently the customers of the Gas Company ?

A It is based on the thought that there is a fixed price which they may charge for that gas when it comes out and I would say that is the fundamental point.

Q MR. STEER: What Mr. Blanchard has in mind is what assurance on your theory there is that the customer of gas is going to get it ?

A Well I have an idea in that regard and I would say that the important point is that the facilities at Turner Valley should be serving the present customers and that is the fundamental point because if they are serving the present customers and



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their rate is based upon the income of the facilities at Turner Valley if they should happen to sell this particular gas to someone else at a high price, the profit they would make by selling that gas would go to the Company in Turner Valley serving the present customers which in turn would accrue to them.

Q THE CHAIRMAN: I have thought of that too since last night but Dr. Katz the difference is that Royalite will own the gas once it goes into storage. Madison is the utility company so that if that stored gas should be sold, say at ten cents, the profit would accrue to Royalite and not to the utility company ?

A I understood that the price at which Royalite was going to sell the gas was fixed.

Q That is their undertaking. They are prepared to sell it at two cents when it comes back out of the ground. That is right, Mr. Chambers.

MR. CHAMBERS: Assuming at the present prices. Assuming that I have hope it might be more although it would mean my client would pay more money.

THE CHAIRMAN: And then is the proper way to put it that you will sell that gas to Madison at the then current wellhead price ?

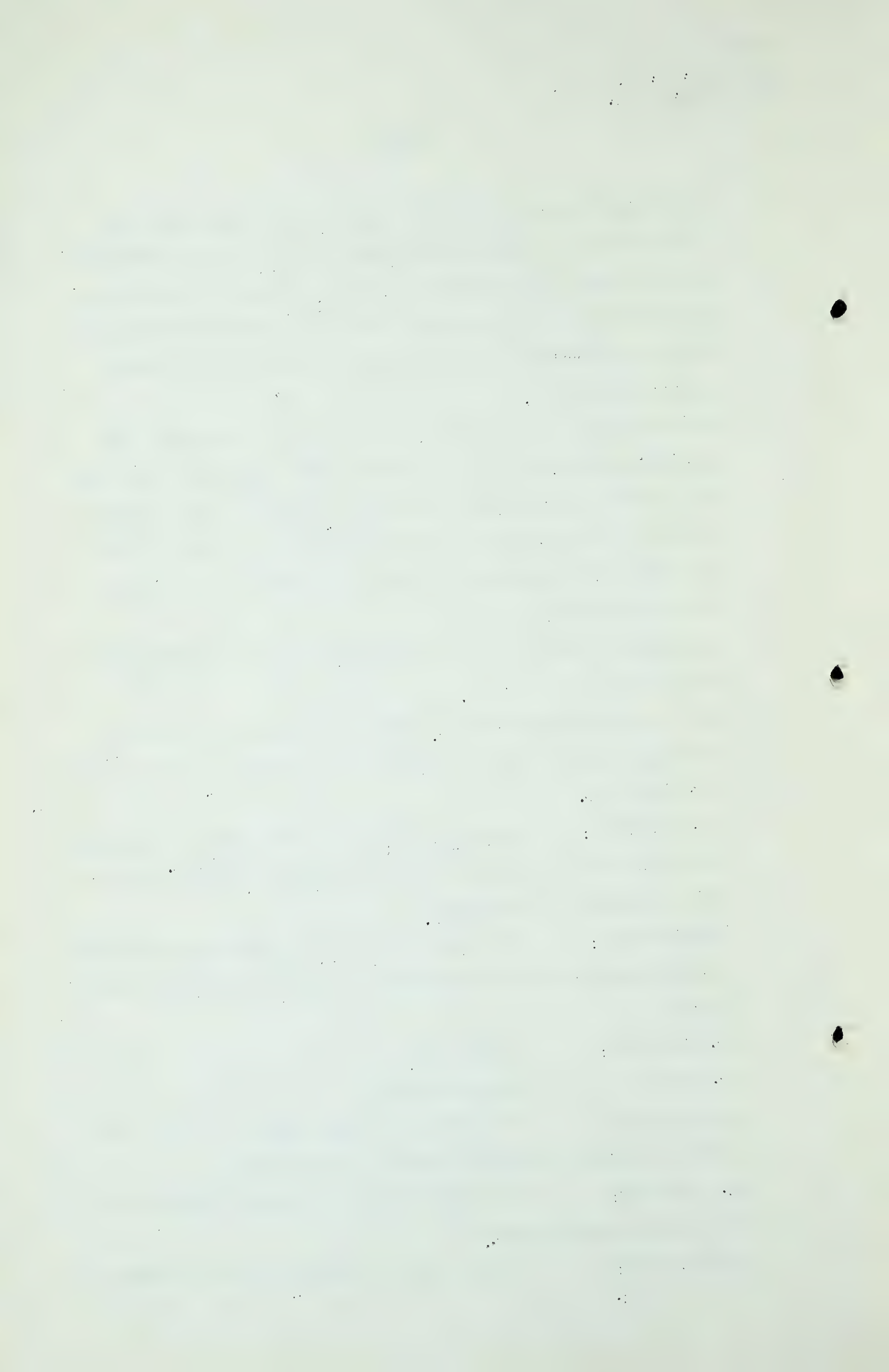
MR. CHAMBERS: At the now.

MR. STEER: Present price.

THE CHAIRMAN: If it should be one cent as I fix the well head price you will sell it at one cent ?

MR. CHAMBERS: But remember that I stated I wanted to get confirmation of that.

THE CHAIRMAN: That is why I asked Dr. Katz to assume



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certain things.

A I assumed that there was a fixed price for the gas that is being stored and that when the gas is sold it will be sold for that price which is agreed upon, and I am also assuming that the facilities at Turner Valley are serving their present customers at the time this gas goes back to Madison.

MR. HAMILTON: Goes back to Madison who may then sell it to someone else for whatever price it will fetch ?

A Yes, as long as Madison is receiving the gas and will obtain any profit they might make. The profit will come to Madison who is also serving the customers.

Q But Royalite cannot sell it to somebody else but would have to sell it back to Madison to whom the profit will accrue ?

A Yes.

MR. McDONALD: The contract is drawn and submitted by Madison and Royalite.

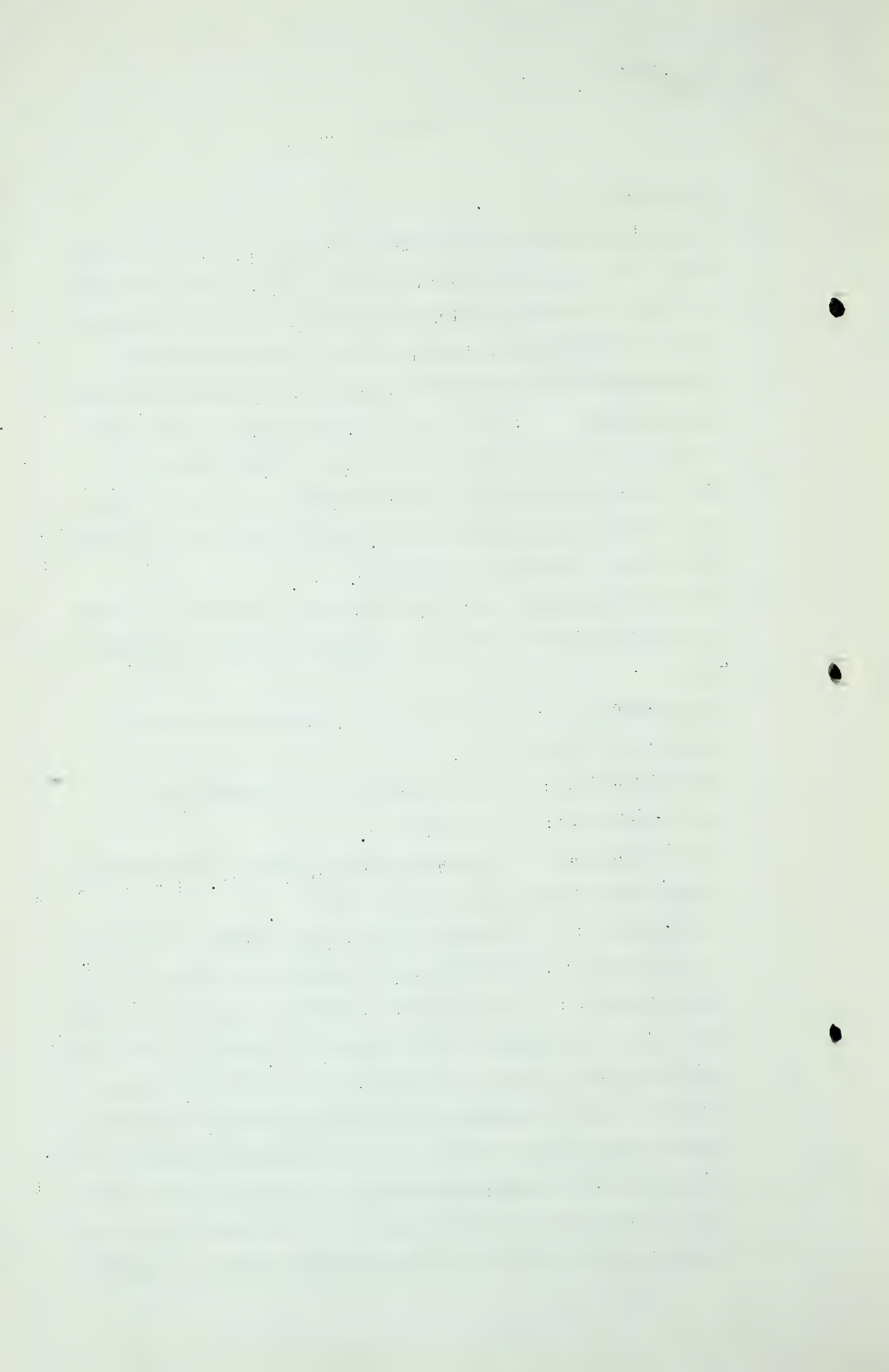
THE CHAIRMAN: That is in one of the submissions ?

MR. McDONALD: Yes, M 16.

THE CHAIRMAN: I have not looked at it. I do not cross bridges until I come to them as a rule.

MR. HARVIE: I do not think that includes the term of a fixed price. I think that was a subsequent offer.

THE CHAIRMAN: The historical price in Turner Valley is two cents at the moment at the wellhead. Assume it costs two cents to store the gas, I am going to say that the producer should pay for the storage of the gas, gathering and storage, then he gets nothing at the wellhead. Would you consider that to be fair. The historical price at the moment is two cents at the wellhead at Turner Valley and if it costs two cents to gather and store and if I should say those charges should be



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paid by the producer then that means he gets nothing for the gas, does it not ?

A Yes, I do not believe that one can say on the one hand that the gas is valuable to the extent that it should be conserved and on the other hand say that no it really does not have any value because all the value for conserving it is spent in conserving it.

Q That is so.

Q MR. STEER: Did you sufficiently consider Doctor, the function of the gas in producing the oil which is a waste out of the producer ?

A Yes sir I assumed that gas from the oil wells is in the nature of a waste product prior to the time it is being gathered.

Q And as a waste product you say even though it costs more to gather it and repressure it than the historical cost of two cents, the well owner should still get money for it.

A Yes, I have. He should have some in that it requires some effort on his part to see that it is gathered.

Q Is it conceivable in your mind as a means of conservation that the Government would say to the producer of crude oil, you must not produce any oil unless some economic use is made of the gas ?

A I know of no places where that is done.

Q Is it a conceivable program of conservation ?

A Certainly not if the gas is said to be worthless to him. I do not believe that you can say to the producer on the one hand you must give us the gas and on the other hand it is valuable to the extent that you cannot produce oil unless you dispose of it.

Q So that in your view it would not be either a logical or a

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proper means of conservation to say to the oil operator you can produce only so much oil as you can find a market for the accompanying gas ?

A No, I do not think so. I think it might be logical to restrict the quantity of gas which he might have accompanying his oil. But for that limited quantity I believe that he should be free to do with it as he wishes.

Q All right, so you say that the oil operator should be allowed to produce we will say the amount of oil and gas dictated by the Brown plan ?

A Yes.

Q And you say that that oil operator ought to be permitted to waste that gas in order to be permitted to produce his oil ?

A I did not say that.

Q Well do you ?

A I said that those that have reasonable gas-oil ratios. In other words the ratio of gas to oil is not too high. They should be able to do that, but not necessarily all of the folks who are producing oil under the Brown plan.

Q You say - perhaps I should put it this way. We will assume that the Brown plan is a scientific conservation scheme and having made that assumption then your opinion is that any oil operator should be allowed to produce the quantity of oil that he can produce under that scheme regardless of what happens to the gas ?

A Provided he produces the oil efficiently in that he does not use an excessive quantity of gas to lift his oil.

Q I am assuming that he is going to produce it under this Brown plan which is a scientific scheme we will assume ?

A The Brown plan is a plan which recognizes giving allowables

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both to an oil zone, a combination of oil and gas, and a gas zone, and is not necessarily set up to restrict the production of a well, that has a high gas-oil ratio, relative to gas production. It only restricts the oil production.

Q Then is it your view that so long as he operates within the Conservation Law, the oil operator is free to do what he likes with his gas ?

A Well I can repeat what I said before. It is neither a yes nor a no to your question and that is that if he is producing oil with a reasonable amount of gas I feel in that case he should be allowed to produce that gas and not have any obligation relative to its disposition.

Q Yes. Now you won't go with me to the extent that I think perhaps you ought to go when I say, if he operates in accordance with a lawful conservation scheme that he ought to be able to do just as you said. You won't go that far ?

A No. Because if I went that far I would be saying to you a man can produce his gas from the gas cap and do what he wants to do with it and no one can do that anywhere that I know of.

Q The gas cap wells in this Province are operated under the Conservation Board, under the Brown plan, are they not ?

A With the oil wells, that is right.

Q Then there is an amount of production that can be got from a gas cap well which the owner is free to take whenever he likes ?

A He is free to take it whenever he likes but he is not free to do with it what he may desire to do with it.

Q Why do you say that ?

A I am sure if a man flared the gas from his gas cap there would be immediate action on the part of the Conservation

1. *Chlorophyll a* and *Chlorophyll b* contents were determined by spectrophotometry using the method of Lichtenthaler and Whistler (1973).

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Board.

Q But there is not any law to that effect today outside of the Brown plan ?

A Not that I know of.

Q Now then there is no difference with regard to the amount that an owner is obliged to produce, at least is allowed to produce, whether he owns a gas cap well or whether he owns a crude oil well. What I suggest to you is that so long as he keeps within the Conservation Board scheme based on the Brown plan then he is free to do with his gas as he likes ?

A I am not sure that I know the answer to that.

Q Have you studied the Brown plan ?

A Yes sir.

THE CHAIRMAN: He is pretty nearly the author of the Brown plan.

Q MR. STEER: Yes. Then any operator in this Province whether he is operating a crude oil well or whether he is operating a gas cap well is told by the Conservation Board that he is to produce not more than twenty-five barrels of fluid ?

A Twenty-five barrels of reservoir fluid per acre per day.

Q Twenty-five barrels of reservoir fluid per acre per day ?

A That is right.

Q Today that is the only restriction that there is upon the operator of any gas cap well or crude oil well in this Province?

THE CHAIRMAN: That is the maximum. That is the maximum.

Q MR. STEER: Well is any operator free to produce up to the maximum in the gas cap ?

A Yes, he is.

Q Well then it follows that even a gas cap operator can produce

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twenty-five barrels per acre per day of reservoir fluid and take out the gasoline and burn the gas ?

A I think that is right.

Q Yes. But he does not do it because he turns his gas into the - at least he does not do it because he turns the gas to the absorption plant and from the absorption plant in most cases it goes into the market but that is because there is a contract in existence or was that provided that market. We will assume that the Canadian Western system goes out of existence and that no gas is supplied to Calgary at all under the Brown plan. That gasoline can be recovered and the resulting gas flared, that is right ?

A It can be by the operator desiring to do it.

Q Yes, and what you say, what you say is, that he ought to be able to do that, do you not ?

A No.

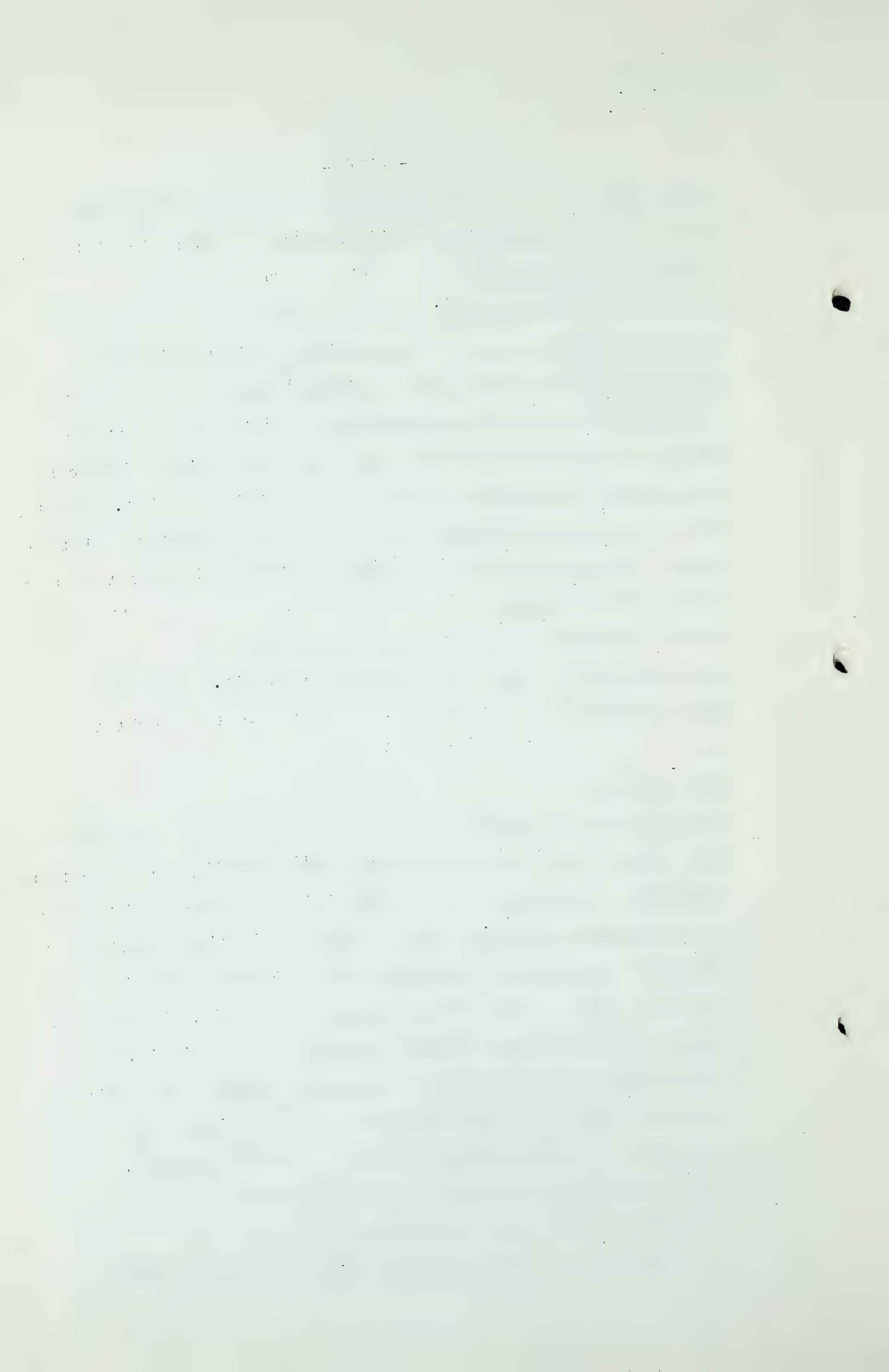
Q Then why not ?

A When natural gas accompanies crude oil in efficient proportions the value of the oil is much higher than the value of the gas accompanying the oil. However when the oil might be lifted in using an excess of natural gas or when you are producing gas from the cap alone and you extract the liquid, the value of the gas I feel is larger than the value of the liquid. Therefore it would not seem logical to permit a person to strip a small percentage of the natural resources coming from the earth and allow the larger percentage to go to the air.

Q Yes, that is from the point of view of public interest ?

A That is right and that is of course the rules in all of the States relative to gas conservation.

Q Now we will assume that you have crude oil wells of high



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Dir. Exam.

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gas-oil ratio that in your view the gas must be conserved.

Is that right ?

A Yes.

Q You make that assumption ?

A Yes.

Q Then would it be logical to say to that oil producer, he is going to get such a small quantity of oil comparatively you must not produce any oil unless you can market your gas ?

A That is right.

Q That is logical ?

A It is relevant to those wells that I agreed to when you asked that question originally.

Q It is simply a matter of degree. It is simply a matter of degree. It depends upon whether the gas or the oil is of the greater value, is that right ?

A Yes sir.

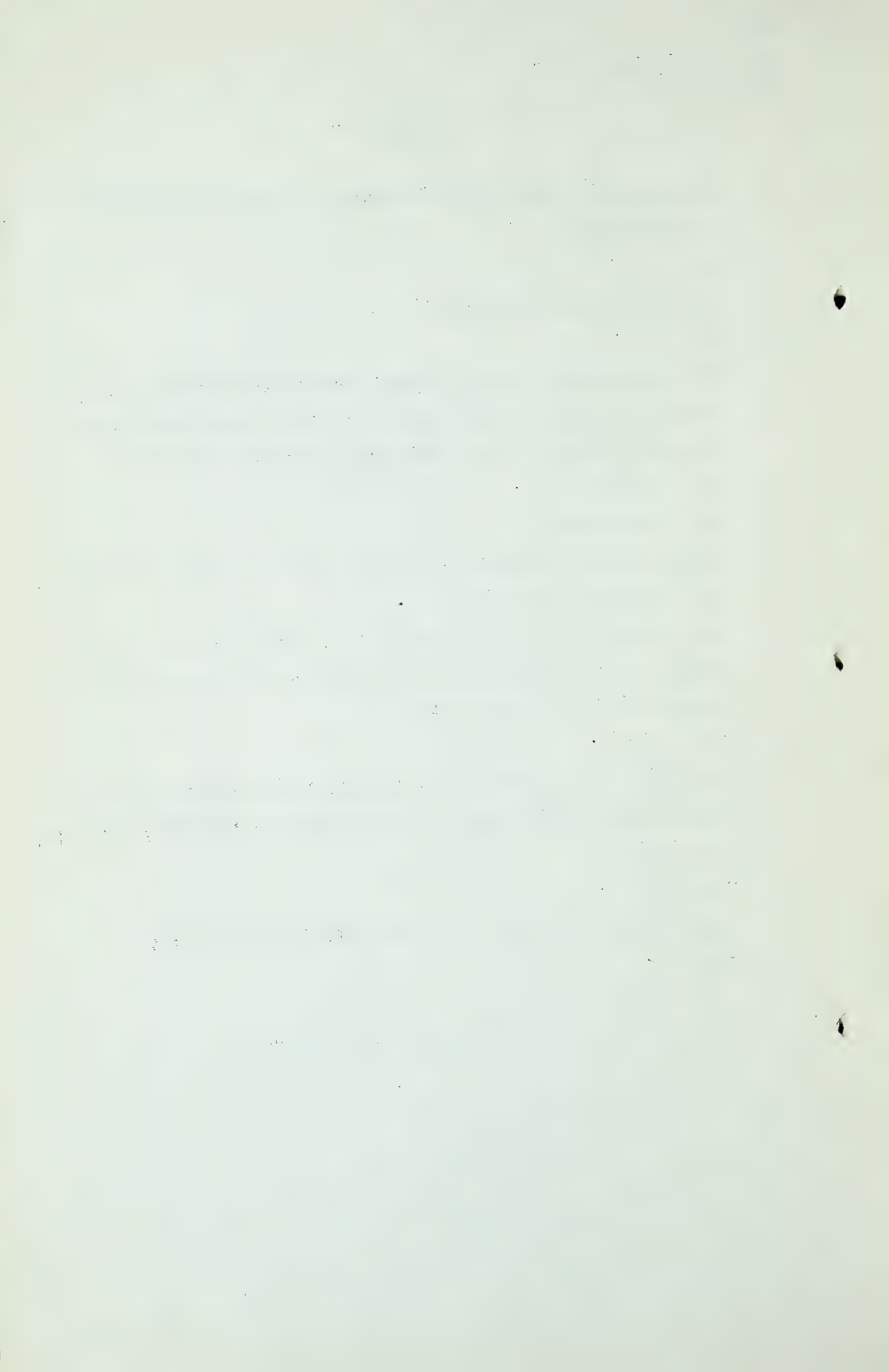
Q So that in a well whether the oil is greater in value than the gas you say that he ought to be allowed to produce his oil, is that right ?

A Yes sir.

Q And waste his gas if he sees fit, is that right ?

A Yes.

(Go to Page 5728)



T-4-1 3.05 P.M.

Donald L. Katz, (Recalled)
Cross-Exam. by Mr. Steer.

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Q Now you say that that waste product which has performed a useful function in the lifting of the oil has got some inherent value for which this oil operator must be paid.

Do you say that?

A Yes on the basis that it is not simply a matter of someone coming and getting the gas and conserving the gas and putting it into the line, influences the manner of operation and must be taken into account in operating that oil well when the gas goes to market as it might be when he simply blows it in the air.

Q We will assume, as I think will be the case, that the lines that are built for the rescuing of that waste product are lines of the Utility in question, so that there is absolutely no expense to which the oil operator is put? Is that clear?

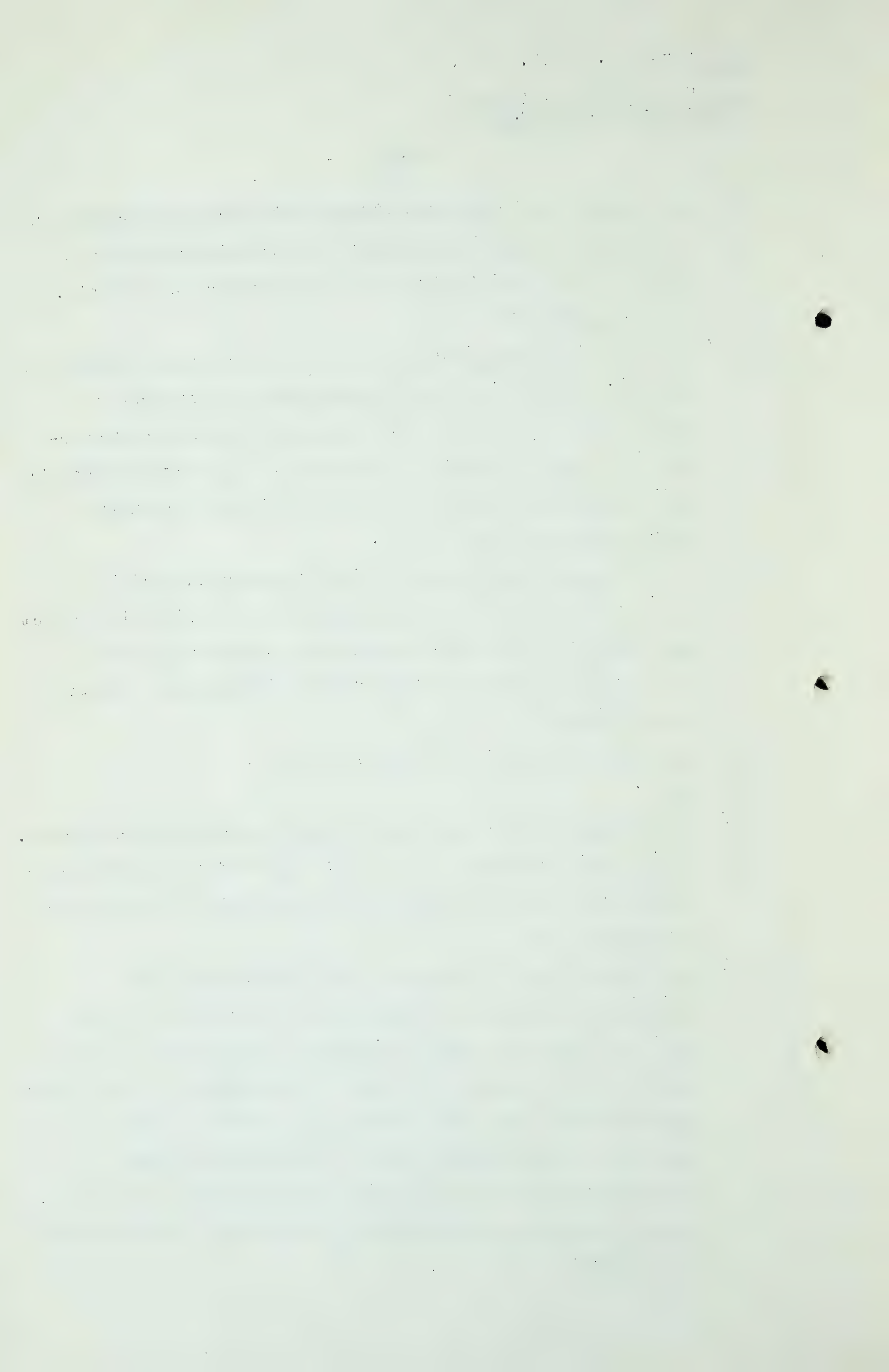
A No expense in terms of money, you mean?

Q Yes.

A Not in terms of care and operation and scheduling and so on.

Q If the gas is delivered at the well head into the gathering system, what possible responsibility can there be on the oil well operator?

A Well we had lots of discussion last night about the difficulty of getting oil operators to schedule their gas into the plant and I think it should be relatively obvious that it is an effort on the part of the operator to have the men flow their wells and get this gas into the plants so that they do not blow the meters. There are a number of items which are not necessarily items of dollars and cents, not an investment, but are items in the actual operation of their wells.



Donald L. Katz (Recalled)
Cross-Exam. by Mr. Steer.

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Q So that is what the oil well operator is to be paid for?

THE CHAIRMAN: No, he did not say that, Mr. Steer, at all, and I do not think you should put those words into his mouth.

MR. STEER: Well with all respect, Mr. Chairman, that is what I understood him to say or I would not have attempted to put the words into his mouth.

THE CHAIRMAN: He certainly did not say it, Mr. Steer.

Q MR. STEER: Now, Dr. Katz, I think we reached this point that where the value of the oil is relatively higher than the value of the gas produced from a well, the operator should be allowed to produce that well no matter what happens to his gas?

A That would be one way of doing it, yes.

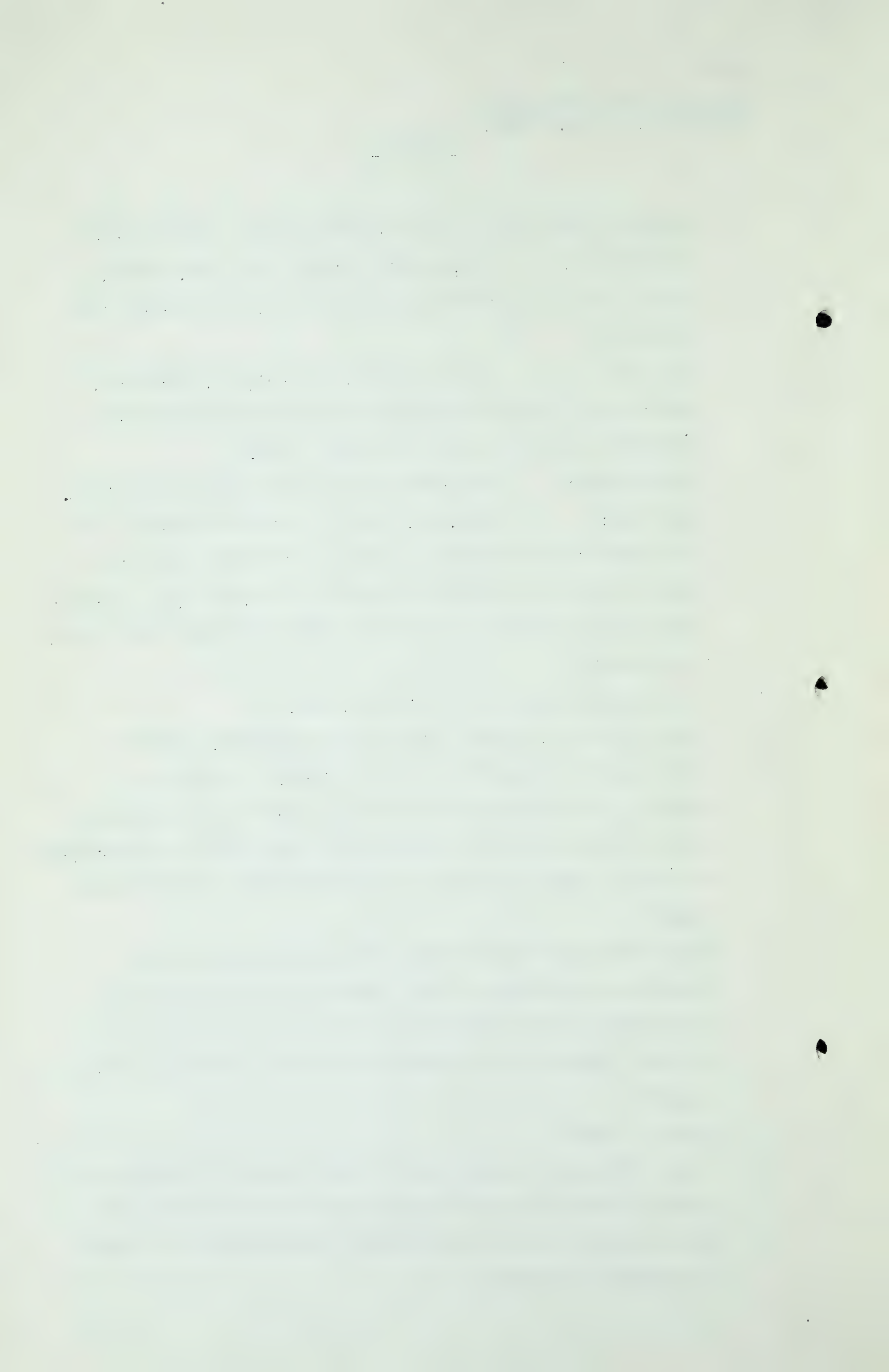
Q Well you agree that is logical and scientific, do you?

A Well I would not say that it is logical. It might be logical under some conditions and it might not be logical under others. I do not think that a man should be restricted so that he cannot produce his oil under any condition like that.

Q Now I think you agreed where the value of the oil was extremely slight and it was produced with an extremely high gas/oil ratio that you would be justified in saying to him: "Produce no oil unless you find a market for your gas."?

A That is right.

Q Then I think you agreed that it was a matter of degree and that you come to a point where there was equilibrium and it would be a little difficult to decide whether he ought to produce this oil?



Donald L. Katz (Recalled)
Cross-Exam. by Mr. Steer.

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A Yes, sir.

Q And then if the value of the oil was greater than the value of the gas, he ought clearly to be able to produce his oil and let what may happen to the gas?

A Yes. But it is not necessarily logical for him to do it, even if he has the right to do it. He might still want the gas gathered.

Q But he is free to waste it if he chooses?

A Yes, sir.

Q Now then I suggested to you that, or I gathered that your view was that that gas had an inherent value and consequently wasteful and all as he may be with regard to it, that he ought to be paid something for it?

THE CHAIRMAN: Mr. Steer, I called Dr. Katz here for the purpose of advising me as to who should pay for repressuring the stored gas. That is all he came here to discuss. I do not think he should be cross-examined on other things.

MR. STEER: I thought I was cross-examining him along that line, sir. If I am not, I desist.

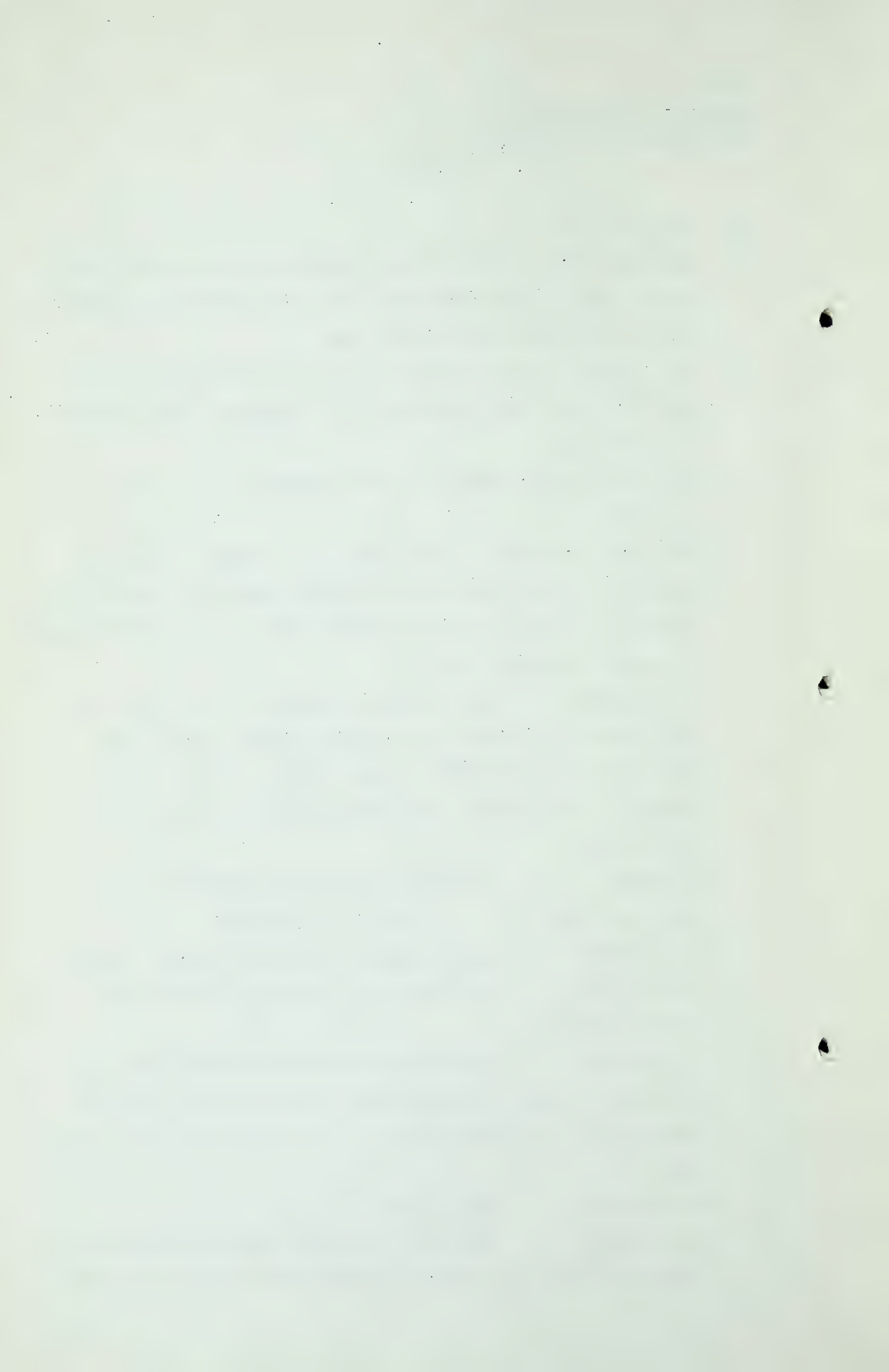
MR. FENERTY: May I cross-examine him on that line?

THE CHAIRMAN: As long as you stay with the subject we are discussing.

MR. FENERTY: I am only interested in the matter of who should pay for repressuring. I take it that is within the bounds of cross-examination. I do not want to go outside.

THE CHAIRMAN: All right.

Q MR. FENERTY: Dr. Katz, you have been discussing one point, the waste of residue gas from an oil well and it is



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gas which, if there is no market for it, would have been at one time flared and you have been discussing whether an oil operator had the right to flare it or not. In any event it is gas that would have no use in the future unless repressured is it not? You would have to flare it or you would have to burn it or you would have to do something with it.

A If the gas is not gathered it would be flared, that is right.

Q So that unless it is gathered and repressured after coming through the absorption plant it has no value has it? Unless it is captured?

A Unless it is gathered it has no value.

Q Do I understand the proposition is that someone is going to pay 2¢ we will say for repressuring, that is creating that value, putting it where you can use it and the Royaltite will pay half a cent for it because somebody has made it of use by spending 2¢ on it. Is that the proposition?

A No, not that I know of.

Q Your idea is, is it not, that it is the consumer who is going to pay for repressuring, is that what it comes to in the end?

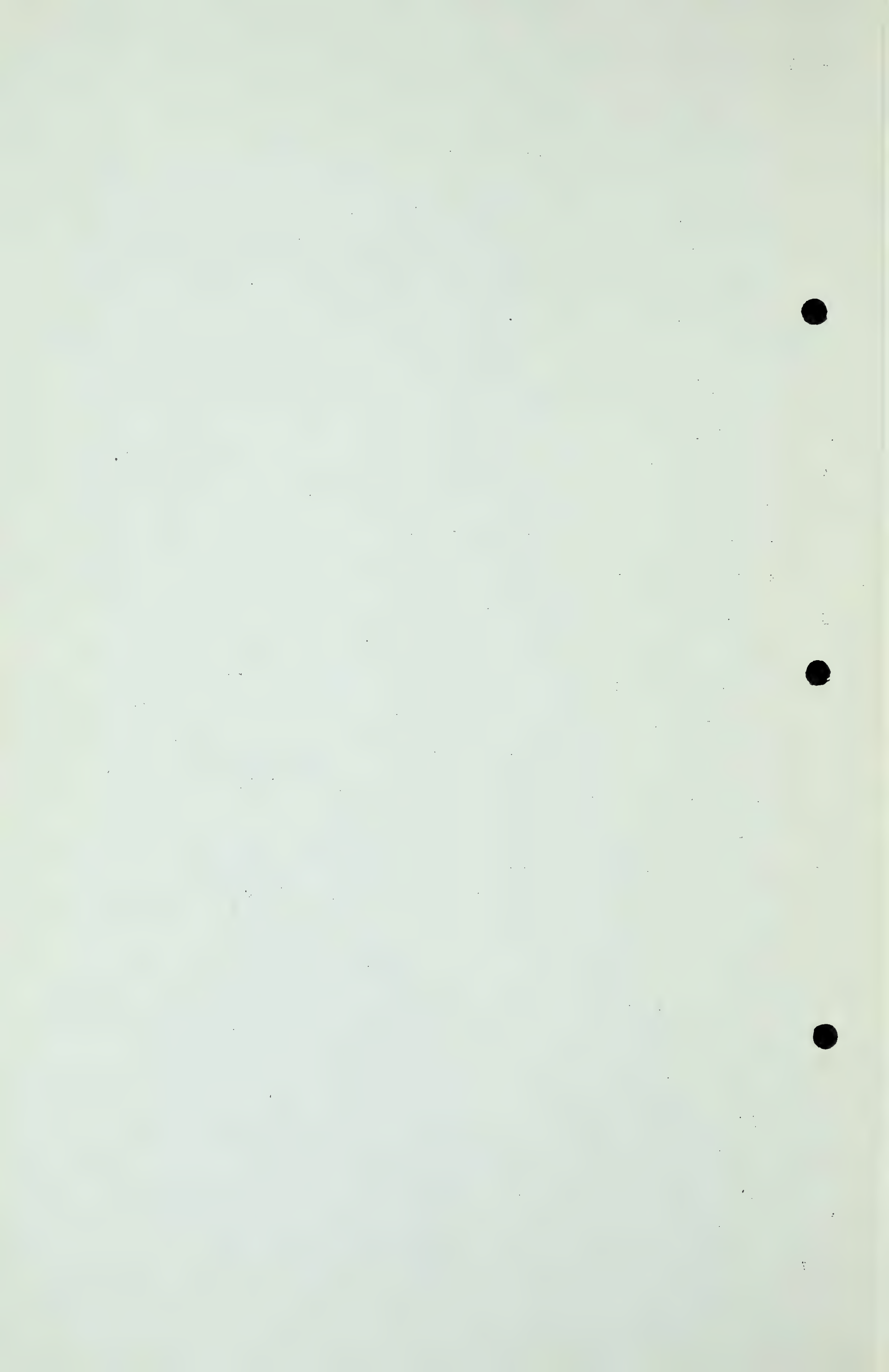
A I do not think that the man who operates one of these wells is going to issue any cheques to people, so that eventually the person who buys the gas is going to pay for it.

Q But who is going to pay this repressuring charge? I wonder if I understood you right?

A It is not going to be possible to tell who pays this cost, in my opinion. It is going to be sold to the consumer.

Q Yes?

A It is going to be very difficult to tell whether the cost



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of compressing this gas and storing it is deducted from the value of the gas or whether it is going to be charged to the consumer.

Q Somebody is going to pay it now. Who is going to do that?
It is going to cost money to do it.

A I think the person who is consuming the gas.

Q But you do not know who it is, who is going to pay for it now? This year it is going to cost something to repressure and who is going to pay that money?

THE CHAIRMAN: He has told me, Mr. Fenerty, that the Utility Company is going to pay for it.

Q MR. FENERTY: By that you mean the Madison Company?

THE CHAIRMAN: The Madison Natural Gas Company.

A That is right.

Q MR. FENERTY: They pay that?

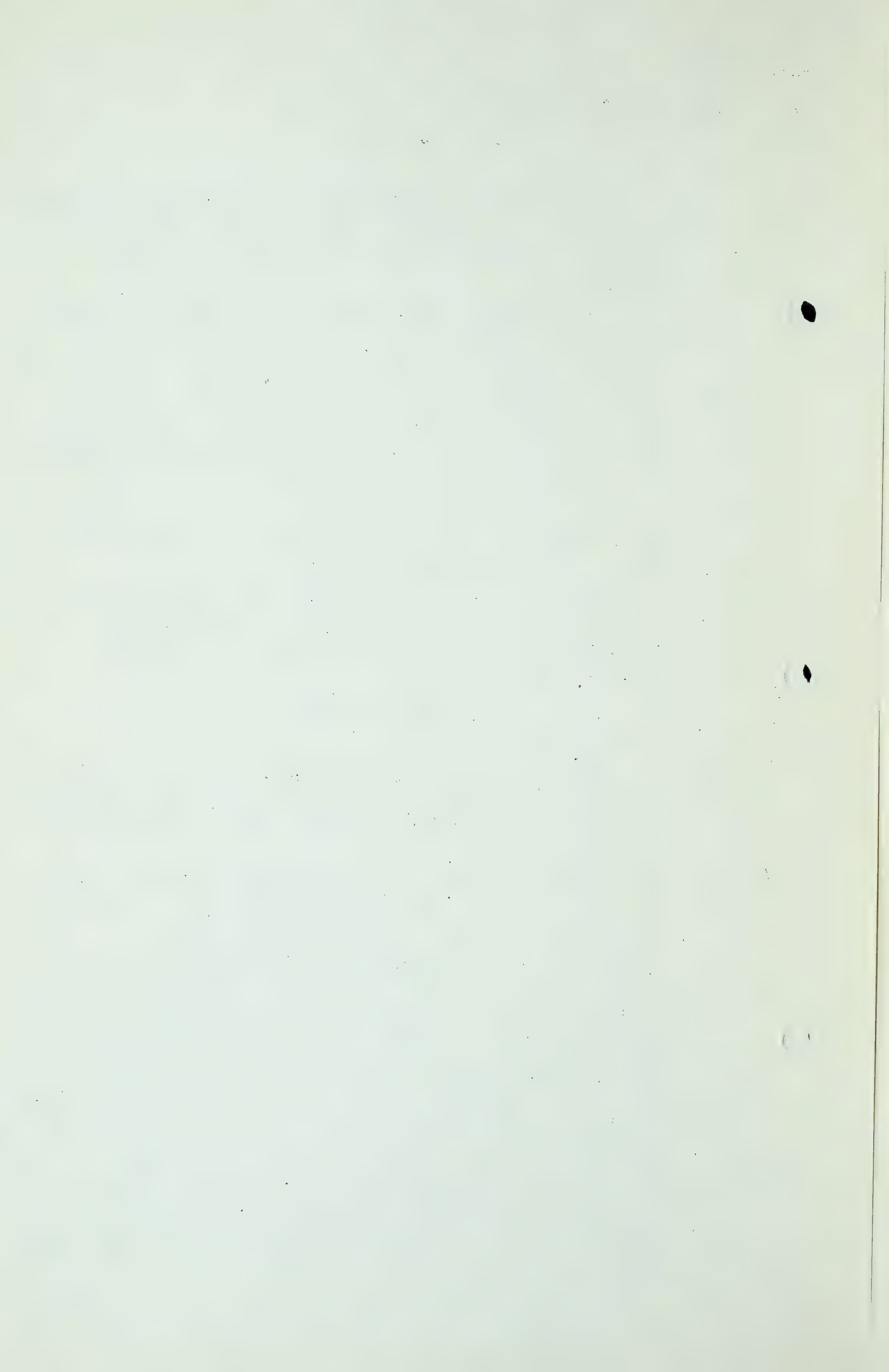
A That is right.

Q And then the price of the repressured gas, half a cent would be paid we will say by Royalite, is that your recommendation?

A That is my understanding.

Q And then you do not know, you say, who would ultimately pay for it because you do not know who will use it?

A If you say the price of the gas or the value of the gas is this much and then you deduct the cost of repressuring the gas and say now it has a net value of this much, you can say the producer paid for the gas. If on the other hand you say the original value of this gas was the lower amount in the first place, you can say the consumer pays for it. Now I am not saying that either of these two values are arbitrary but there was a question asked who was going to pay for storing and conserving this gas and I do not think



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it can be answered in the usual sense of the word, excepting this fact; that the consumers of natural gas are the only people who are going to contribute money to the whole project. Certainly the person who is going to deliver the gas is not going to send a cheque with it. Therefore the cost will eventually be borne by the person who buys the gas.

Q I see. Now then, let me ask you this, if the person who buys the gas has contributed 2¢ for repressuring, whoever may buy the gas that will be part of the price and somebody else has contributed half a cent for the value to the well owner, which I take it has been created by storing, and Royallite has contributed the storage facilities, don't you think the person who has created perhaps a half or two-thirds of the value by repressuring the gas should have that much interest in the gas?

A Yes, I think that he should have an interest in the gas in that he has the right to buy it back.

Q In the proportion that he contributed to converting a waste product into something of value?

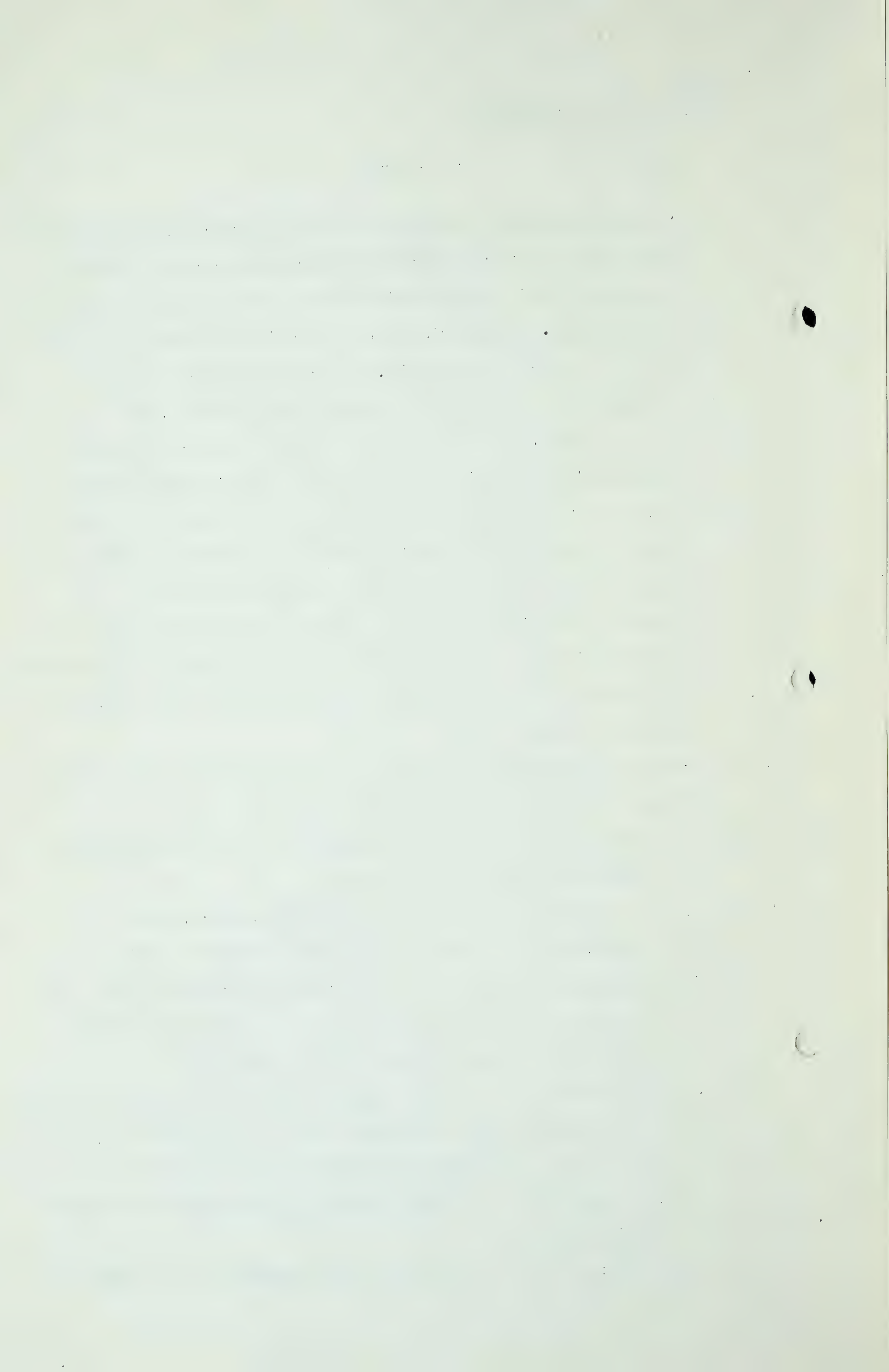
A Yes, I assume he has a right to buy this gas back.

THE CHAIRMAN: There is not any evidence that it is a waste product of no value, Mr. Fenerty. We have had a lot of statements made but it has not been established to me yet that it is a waste product of no value.

MR. FENERTY: I was speaking only of this gas produced from an oil well at a time when there is no market for it and which had previously been blown off in the air.

THE CHAIRMAN: I know and the Legislature has created a market for it.

MR. FENERTY: Well now, I am speaking of Dr. Katz'



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theory that he is entitled to burn it.

THE CHAIRMAN: Mr. Fenerty, supposing I said that the price of gas at the well-head was nothing but nevertheless I say that gas has to be stored.

MR. FENERTY: Yes.

THE CHAIRMAN: And you say who is going to do it, Royelite?

MR. FENERTY: I would suggest that the people who do it have the largest possible interest.

THE CHAIRMAN: You are confusing well-head price with the cost between the well-head and the consumer.

MR. FENERTY: I would make this suggestion, sir, that the people who do it are just the people who do it everywhere on this continent.

THE CHAIRMAN: Are you suggesting, then, that the well owner who has produced this gas, which is a waste product and has no value, that he should pay the cost of putting it into the reservoir so that Calgary can get it in 15 years?

MR. FENERTY: All I am going to say is this

THE CHAIRMAN: Is that your suggestion?

MR. FENERTY: Yes. What I do suggest is if somebody is going to contribute half a cent to make it of value, and I am going to contribute 2¢, I would sooner pay 2½¢ and own it myself. That is just elementary economics.

THE CHAIRMAN: Where would you keep it?

MR. FENERTY: I would have to pay for storage, certainly.

THE CHAIRMAN: Then are we not just running around the bush?

MR. FENERTY: I will not buy it twice over.

A I might say this that the method of handling the gas when

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it is being put back for storage is simply a matter of providing a place for storing it and a matter of providing the investment required.

Q Yes.

A There is no opportunity with that arrangement contemplated for making a profit on it. There is no method by which it might become out of the control of the company serving Calgary.

Q As a matter of fact when you were discussing with Mr. Steer your theories as to what the owner of the well might be permitted to do, and what I gathered from your evidence was, I got the impression you were following I would say exactly what is now being done under present legislation in Texas. Are you familiar with that?

MR. BLANCHARD: I have difficulty in hearing you, Mr. Fenerty.

MR. FENERTY: Am I right in that?

A Well I do not happen to know what they are doing in the State of Texas, right now, but it is a general practice in any of the States that I know of, if they have a low gas/oil ratio no questions are asked of the oil operator what happens to the gas. But if he has a high gas/oil ratio they might declare his well a gas well and then he automatically must follow the rules for gas wells or they might restrict him as an oil well.

THE CHAIRMAN: I do not care what they do in Texas or in Greenland's Icy Mountains or India's coral strand. I know what we are doing in Alberta. Dr. Katz is giving evidence as to who should pay the cost of repressuring or storing the gas. That is all he is here for, so that is

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all I want him to be cross-examined on.

MR. FENERTY: Will you give me two minutes?

Q When you are talking of conservation is your idea of normal conservation taking out of the ground a substance for which there is no use and then putting it back into the ground? Would you call that conservation?

A I would not put it back into the ground if there was not any use for it.

Q In this case you take gas out of the ground because its normal function is an oil lift?

A A gas lift for oil, that is right.

Q And if it comes within a certain ratio of gas per barrel, as I understand it, it has fulfilled that function?

A Yes, sir.

Q And that, I take it, is your reason for treating it as a waste product because it has fulfilled its normal function if it comes within that ratio?

A Yes, sir.

Q And I repeat again to you and I ask you and leave the suggestion with you for consideration that if that be so and it has performed its normal function and it is a waste product, I suggest to you that those who contribute money and make the value should share in the proportion that they so contribute, is that reasonable?

A Yes, sir, I think so.

Q Thank you.

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CROSS-EXAMINATION BY MR. CHAMBERS.

Q Dr. Katz, as I understand it the Brown Plan is designed for the purpose of insuring the greatest recovery of the petroleum products from the formation. Is that a fair way to put it?

A And still retain private ownership.

Q Yes. But that is what it is designed or intended to do to insure a maximum amount of petroleum recovery.

A Crude oil recovery, that is right.

Q And the Brown Plan as I understand it is the basis upon which the Conservation Board presently operates, is that right?

A That is right.

Q In other words, my understanding is that the Conservation Orders based on the Brown Plan are designed to conserve gas for the purpose of getting the best amount of efficient petroleum production. Would that be a fair way to put it?

A That is right.

Q And it is not concerned as such with the conservation of gas in the sense of wasting it in the air?

A No it is not. It is only for conserving gas within the reservoir.

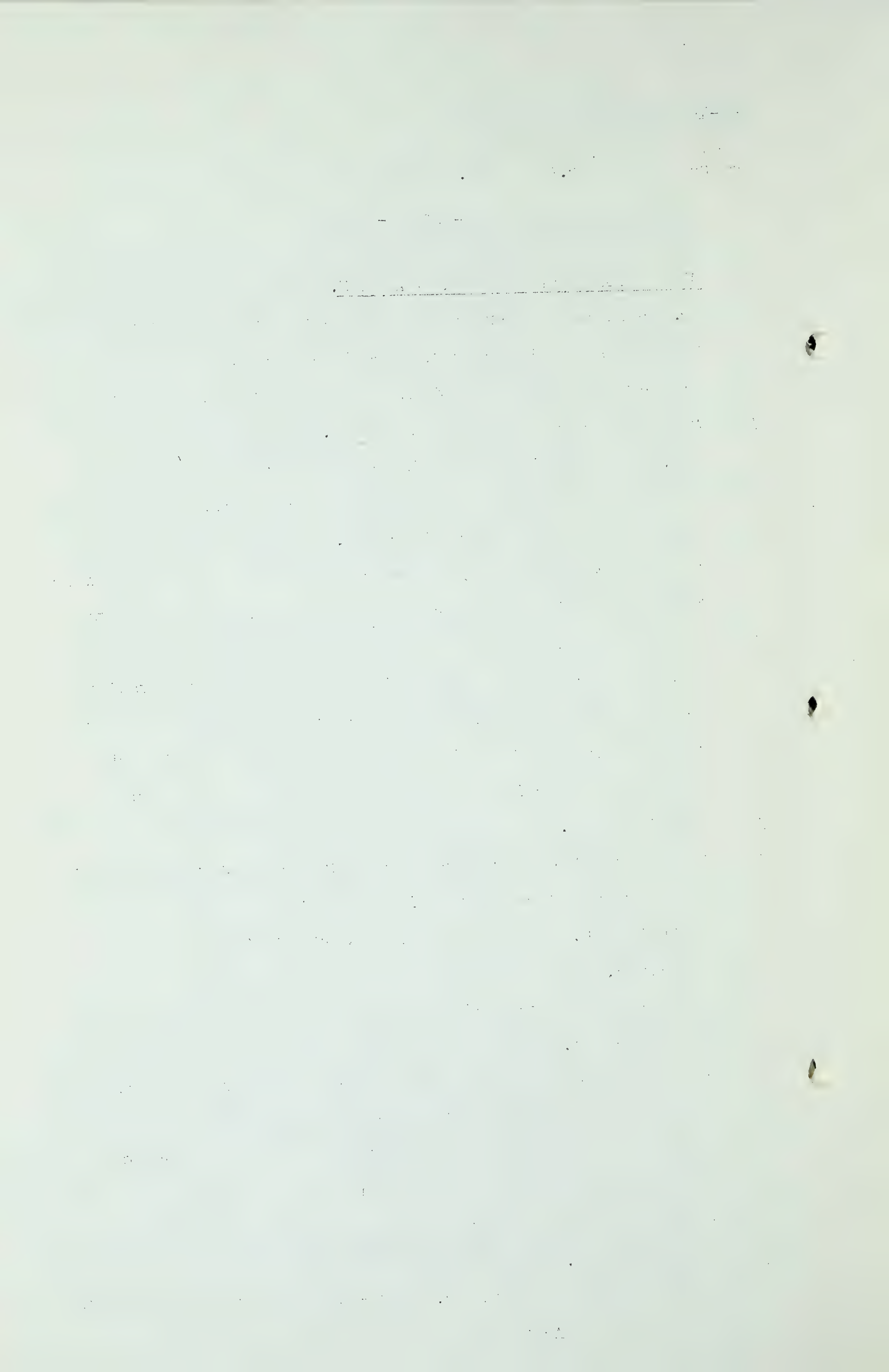
Q As an agent for producing petroleum?

A That is right.

Q And that under the Brown Plan and the Conservation Board Orders, as long as the oil operator or the well operator is producing his well within the limits of those Orders those plans are not concerned with what he does with the gas after it gets to the top of the ground?

A That is right.

Q I suggest to you this, Dr. Katz - you have read the Natural Gas Utilities Act?



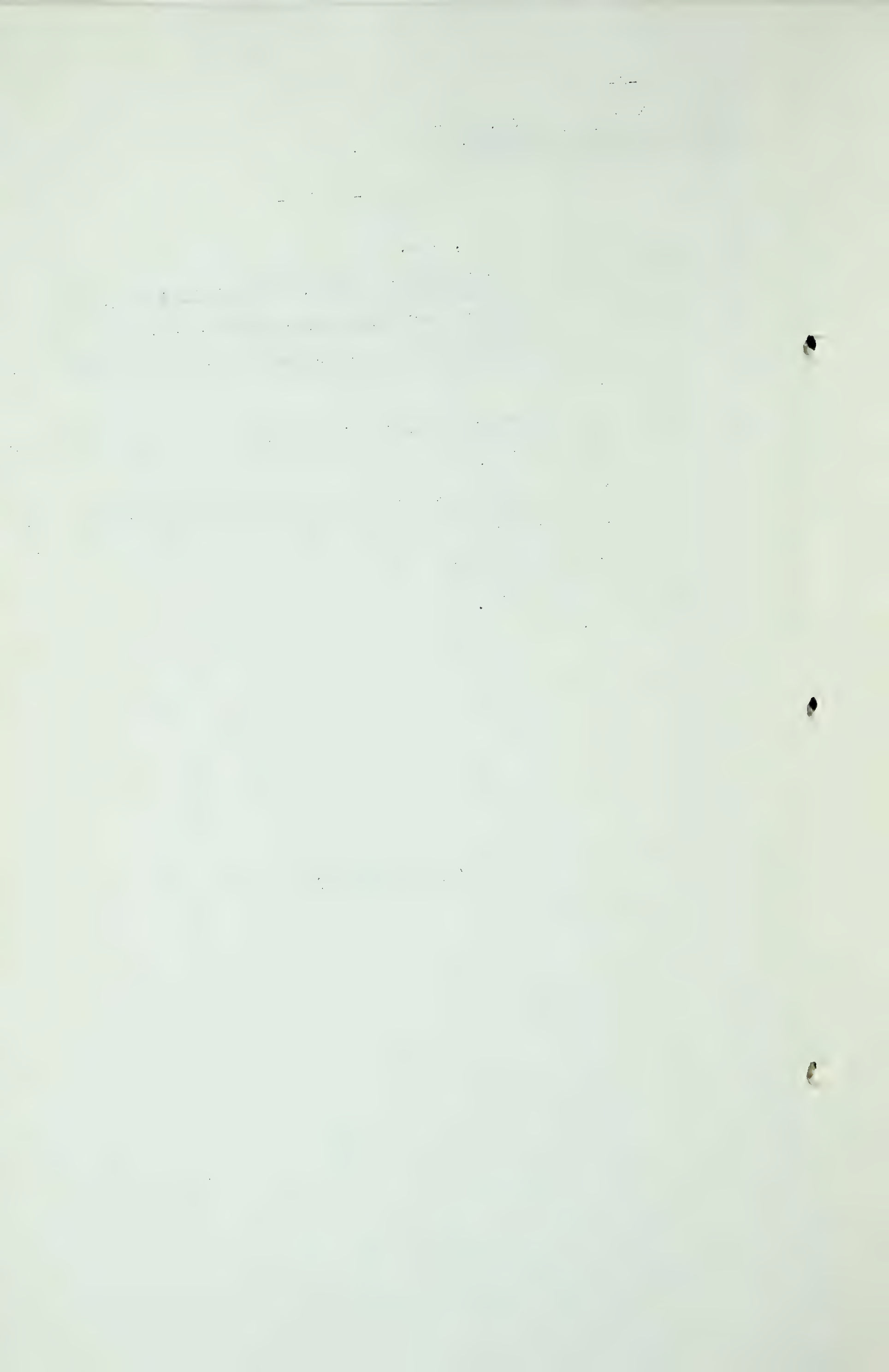
A Some time ago, yes.

Q I am suggesting this to you, that it is this Act that has operated to conserve the gas as such after it comes to the top of the ground in performing its function in producing oil?

A I would say regardless of what its function had been prior to that time.

Q And under this Act, the man who has legally brought his gas to the top of the ground is now prevented from doing what he likes with it?

A That is right.



C-4-1 3.25 p.m.

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Q And would you agree with me in this, that it is fair and just that since the person is deprived of his right to do as he likes with his property, that if he is required to spend money on it that he should be reimbursed in fairness, would you agree with that proposition?

A Yes.

Q What I am getting at, Dr. Katz, the reason you gave or the basis of the plan which you gave, is founded in those propositions which I have already put to you?

A I am sorry, I did not understand your last question.

Q What I am getting at is this, as I understand it you say that this gas now at the top of the ground is devoted to the public service in the sense that the owner is not a free agent?

A Yes.

Q And it is not fair and just that he should be required to spend money on something which he might otherwise desire to waste?

A Yes.

MR. CHAMBERS: Thank you.

Q THE CHAIRMAN: Just one more question, Dr. Katz, supposing I fixed the well head price at $\frac{1}{2}$ a cent and it cost 2 cents to put the gas into storage, who should pay the difference, the producer or the consumer? I think the answer is obvious, is it not?

A Yes, that the consumer should pay it. As a matter of fact, I am not sure in my own mind but what the consumer should not also pay the $\frac{1}{2}$ cent.

Q I think that is obvious also.

THE CHAIRMAN: Well we will adjourn now until the 4th of March, at 9.30 in the morning.

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MR. CHAMBERS: Sir, there is one point that I would like to put to Dr. Katz, and if he does not care to answer it, all right, but the reason I mentioned it, it may be of some use to the Board.

THE CHAIRMAN: Yes.

MR. CHAMBERS: It was in connection with the matter of the absorption plants.

THE CHAIRMAN: Yes.

Q MR. CHAMBERS: If Dr. Katz says that he is not in a position to give us any information or an opinion as to that matter, all right, but I suggest it might be of some use, although I am not pressing the matter if you do not want me to put it to him.

THE CHAIRMAN: He may not be prepared to answer you, Mr. Chambers, but if you want to ask you may.

Q MR. CHAMBERS: Dr. Katz, we had some discussion yesterday or the day before as to whether it is prudent and safe and good practice in the interests of the public, to have the wet content of this natural gas removed from that gas before it is delivered to the market.

MR. STEER: Now, Mr. Chairman, the reason I cross-examined Dr. Katz in the way I did was because he had given evidence which, in my view, was contrary to the evidence which was given by Mr. Davis whom I had called, and I must say this, that if Dr. Katz is to be asked that question, and he answers it, that I must deal with it in cross-examination.

THE CHAIRMAN: Oh yes, that opens up a new phase, Mr. Steer, it opens up a new phase entirely.

MR. CHAMBERS: If Dr. Katz cares to answer it, all right.

THE CHAIRMAN: If he confines himself to that, I will

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make no direction, but I have learned one thing this afternoon and that is how to secure my advice from Dr. Katz the next time I want advice, I have learned that today.

MR. CHAMBERS: Very well, that is all.

THE CHAIRMAN: We will adjourn now until the 4th of March.

MR. BLANCHARD: Mr. Chairman, before you adjourn may I speak to one matter, and that is as to when the information with respect to the absorption plant is to be available?

THE CHAIRMAN: I am going to go into that, Mr. Blanchard, and make a direction about it in the next few days.

(The Hearing was here adjourned, to be resumed at 9.30 A.M., March 4th, 1946).

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